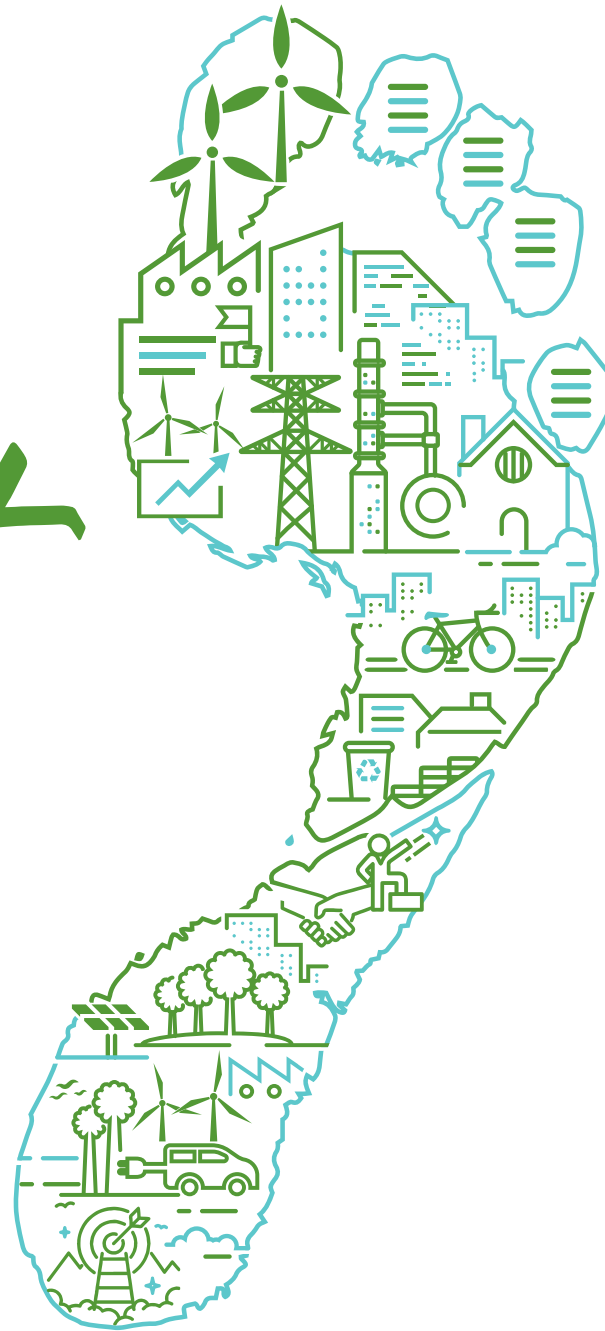


The Next Step

CEYLON TOBACCO COMPANY PLC
ANNUAL REPORT 2020



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Online references:
<http://www.ceylontobaccocompany.com>

Scan the QR Code with your smart device to view this report online.

The Next Step

Sustainability at front and centre.

As Ceylon Tobacco Company PLC marks over 115 years of sustainable operations in Sri Lanka, we know that our journey is far from complete. Even as we re-engineer our sustainability agenda, we're setting our sights on the next century; re-aligning ourselves to meet the needs of the future, and renewing our pledge towards championing sustainable change across the board.

As we step into the next stage of our journey, this Report details our plans for the years ahead; encompassing areas of climate action, sustainable livelihoods and excellence in corporate governance. We're striving to reduce the impact of our operations, while building a diverse and engaging culture for all.

The next step of our sustainability journey begins here.





CTC at a Glance

Ceylon Tobacco Company PLC (CTC/Company) 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. As a subsidiary of British American Tobacco plc (BAT), the Company adopts global best practices, thereby developing Sri Lanka’s talent pool and propagating best-in-class practices in the Sri Lankan corporate and manufacturing sector.

OUR PEOPLE

Continued investments in developing our people and efforts to build an increasingly diverse and inclusive workplace through global best practices in people management have made CTC one of Sri Lanka’s most preferred employers.

262 PERMANENT EMPLOYEES

SUSTAINABILITY

We adopted a strategic and focused approach towards sustainability. Excellence across our ESG priorities has helped us to consistently generate shared value for our stakeholders.

STRENGTH IN DISTRIBUTION

An extensive network of island-wide distributors and traders ensure that our products are marketed responsibly and made accessible to adult consumers across the Country.

13 DISTRIBUTORS **33,329** TRADERS

PRODUCT PORTFOLIO

Deep insights into adult consumer behaviour and access to world-class research has armed us with the ability to satisfy changing and diverse needs through a focused portfolio of products.

17 STOCK KEEPING UNITS (SKUs) **07** BRANDS





The year in Numbers

FINANCIAL PERFORMANCE

TURNOVER

Rs. **132,149** MILLION
(2019 : 141,342)

REVENUE

Rs. **32,073** MILLION
(2019 : 35,524)

PROFIT BEFORE TAX

Rs. **25,434** MILLION
(2019 : 28,691)

PROFIT AFTER TAX

Rs. **15,578** MILLION
(2019 : 17,259)

INVESTOR RATIOS

EARNINGS PER SHARE

Rs. **83.16**
(2019 : 92.13)

DIVIDEND PER SHARE

Rs. **82.85** (INTERIM & PROPOSED FINAL DIVIDEND)
(2019 : 92.13)

MARKET VALUE PER SHARE

Rs. **1,028.9**
(2019 : 1,100.3)

RETURN ON INVESTED CAPITAL

123%
(2019 : 111%)

STAKEHOLDER VALUE CREATION

VALUE TO GOVERNMENT

Rs. **110,132** MILLION

VALUE TO SHAREHOLDERS

Rs. **15,578** MILLION

VALUE TO EMPLOYEES

Rs. **1,365** MILLION

VALUE INFUSED TO GDP

Rs. **33,000** MILLION

SOCIAL PERFORMANCE

PERMANENT EMPLOYEES

262

PAYMENTS TO CONTRACTED FARMERS

Rs. **1,658** MILLION

TRAINING HOURS

11,532

LIVELIHOODS SUPPORTED

286,900+

FEMALE PARTICIPATION RATE

29% (MANAGEMENT ROLES)

ACCIDENTS

ZERO

Our comprehensive sustainability agenda centres on our material ESG initiatives, which reflect the Company's focus areas and the priorities of our stakeholders. The ESG framework clearly sets out our long-term aspirations in achieving carbon neutrality, creating sustainable livelihoods, and championing excellence in corporate governance in Sri Lanka.

GOVERNANCE

INSTANCES OF NON-COMPLIANCE TO LAWS AND REGULATIONS

ZERO

EMPLOYEES TRAINED ON ANTI-BRIBERY AND CORRUPTION

100%

NUMBER OF INCIDENTS RELATING TO ANTI-BRIBERY AND CORRUPTION

ZERO

ENVIRONMENTAL PERFORMANCE



REDUCTION IN CARBON FOOTPRINT
13%



REDUCTION IN WATER WITHDRAWAL
9%



RENEWABLE ENERGY FOR TOBACCO CURING
100%



WASTE RECYCLED
89%

INVESTMENT IN EHS INITIATIVES : Rs. **86.3** MILLION



About the Report



In 2019, the BAT Group endorsed an ambitious plan to accelerate the transformation of its business through an evolved corporate strategy. BAT's sustainability agenda is at the heart of this strategic plan, clearly setting out the targets and action plans to build a long-term sustainable business. In aligning our corporate reporting with this integrated approach towards strategy formulation, this year, CTC has embraced the principles of integrated reporting and this Annual Report has been prepared in line with the Integrated Reporting <IR> Framework published by the International Integrated Reporting Council. The Report provides a balanced overview of our strategy, performance, operating landscape, and outlook in relation to material financial and ESG issues.

NAVIGATION ICONS

CAPITAL RESOURCES



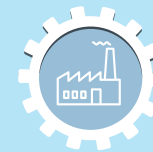
Financial Capital



Human Capital



Natural Capital



Manufactured Capital



Intellectual Capital



Social and Relationship Capital

STAKEHOLDERS



Shareholders and Capital Providers



Employees



Distributors and Traders



Consumers (Adult)



Government and Regulators



Farmers (Tobacco)



Communities

BASIS OF REPORTING

This Report covers the operations of CTC for the period from 1 January to 31 December 2020; It also includes any material development until the signoff date (20 April 2021). The Company adopts an annual reporting cycle, and this Report builds on the Company's previous Report for the year ending 31 December 2019. The Report complies with the following reporting standards and frameworks:

- Integrated Reporting <IR> Framework of the International Integrated Reporting Council.
- Sri Lanka Financial Reporting Standards.
- Companies Act No. 7 of 2007.
- Listing Rules of the Colombo Stock Exchange.
- Global Reporting Initiatives (GRI)- In accordance with the core criteria of the GRI Standards.
- United Nations Sustainable Development Goals (SDG).
- Guidance on ESG Reporting issued by Colombo Stock Exchange.
- Code of Best Practice on Corporate Governance issued by CA Sri Lanka (2017).

There are no material restatements of information given in last year's Report nor any significant changes to the Company's organisational structure, operations and/or supply chain during the year.

REPORTING IMPROVEMENTS

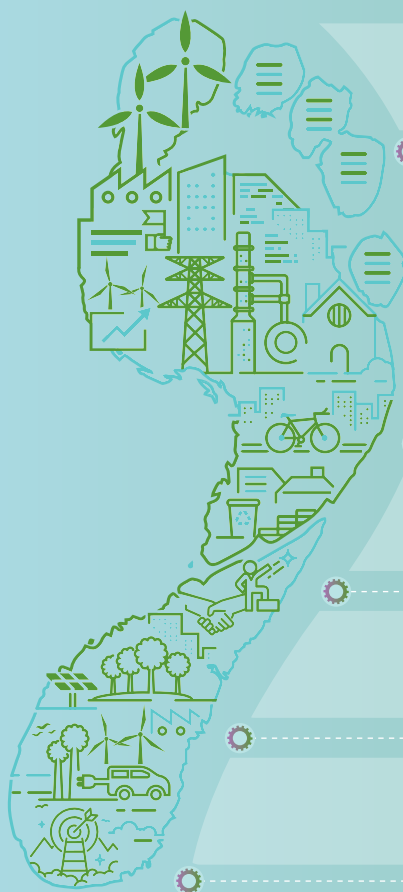
This year's Annual Report features the following reporting enhancements:

- Content has been structured to reflect the Company's key strategic priorities and the progress made in each strategic pillar.
- Use of navigation icons and signposting to show connectivity across the Report.
- Implications of COVID-19 on the Company's operations have been disclosed and discussed within relevant sections.

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 External Audit teams evaluate the integrity of financial reporting and internal controls. Assurance on the Company's financial statements have been provided by Messrs. KPMG. The Company has not obtained assurance for its sustainability reporting this year.

Inside this Report,



DIRECTORS' RESPONSIBILITY

CTC's Board of Directors is ultimately responsible for ensuring the integrity of the Company's Annual Report. The Board hereby confirms that CTC's Integrated Annual Report of 2020 addresses all material issues and fairly reflects the Company's integrated performance and value creation. The Board also confirms that this Report has been prepared in accordance with the <IR> Framework. The Board approves this Report and its publication on 20 April 2021.

Signed by Audit Committee Chairman, on behalf of the Board.

A Step Towards Growth

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A Step Towards Hope

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A Step Towards Sustenance

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A Step Towards Leadership

Page 67 - 73

A Step Towards Trust

Page 75 - 98

A Step Towards Results

Page 99 - 160



Our new Corporate Logo



BAT, along with its subsidiaries unveiled the new corporate logo and brand identity in 2020, reflecting changes in the world around us and the evolution of our business. CTC unveiled its new corporate logo in March 2020 aligned to BAT's new brand identity. The new logo and brand identity reflect our business today – with an evolved purpose that aims to reduce the health impact of the business.

For decades, our previous leaf logo served us well as a strong symbol of an entity that is a member of a world-leading tobacco company. However, our purpose has evolved, and our dynamic new logo reflects the Company as it is today as well as our journey ahead.



Our response to COVID-19

The outbreak of the pandemic presented unparalleled challenges for CTC, necessitating prompt and decisive action to ensure the safety of our people and those of our business partners while sustaining our financial performance. CTC's Crisis Management Team was immediately called into action and the Team continuously monitored emerging dynamics including impacts of restrictions, health & safety risks, demand conditions, and responded effectively.

Our actions included the following:

 <p>SAFETY OF OUR EMPLOYEES</p>	<ul style="list-style-type: none"> • Facilitated remote working arrangements for office employees & maintained close co-ordination with local health officials to ensure recommended health & safety standards were followed. • Proactive determination of work arrangements and changes in shift patterns for the Manufacturing Operation with effective internal engagements. • Stringent health & safety practices including disinfection chambers, random PCRs, provision of advanced PPE, transport & accommodation, along with continuous trainings.
 <p>OPERATIONS AND DISTRIBUTION CHANNELS</p>	<ul style="list-style-type: none"> • Ensured product availability through existing network and new contact points. • Supported commercial viability of distribution partners.
 <p>SUPPLY CHAIN</p>	<ul style="list-style-type: none"> • Continued value injection through rapid resumption of procurement and logistics activities.
 <p>FINANCE AND LIQUIDITY</p>	<ul style="list-style-type: none"> • Sensitivity analysis to assess impacts on cash flows. • Increased focus on productivity, efficiency and cost rationalisation.
 <p>SAFETY OF OUR BUSINESS PARTNERS</p>	<ul style="list-style-type: none"> • Weekly sessions on health, safety, and hygiene to distributor staff through digital channels. • Provision of essential food items to distributor staff. • Distribution of PPE to tobacco farmers and distributors/traders. • Launch of a health insurance scheme for traders.



Performance Highlights

		Units	2020	2019
FINANCIAL HIGHLIGHTS	Turnover	Rs. Million	132,149	141,342
	Government levies	Rs. Million	100,076	105,818
	Revenue	Rs. Million	32,073	35,524
	Profit before tax	Rs. Million	25,434	28,691
	Profit after tax	Rs. Million	15,578	17,259
	Net assets	Rs. Million	4,602	4,623
	Interim dividends	Rs. Million	13,394	14,986
	Proposed final dividend	Rs. Million	2,126	2,272
	Total value added	Rs. Million	127,215	136,282
	Capital investment	Rs. Million	952	884
	Market capitalisation	Rs. Million	192,737	206,112
	Value added per employee	Rs. Million	485	505
	Dividend pay-out	%	99.63	99.99
	Earnings per share	Rs.	83.16	92.13
	Dividend per share (interim and proposed final dividend)	Rs.	82.85	92.13
	Market value per share (closing)	Rs.	1,028.9	1,100.3
	Net assets per share	Rs.	24.57	24.68
SOCIAL HIGHLIGHTS	Permanent employees	Number	262	270
	Training hours	Hours	11,532	13,373
	Female participation in management roles	%	29	23
	Total livelihoods supported	Number	286,900+	176,000+
	Payments to contracted tobacco farmers	Rs. Million	1,658	1,419
	SADP beneficiaries	Number	79,000+	76,000+
ENVIRONMENTAL HIGHLIGHTS	Energy consumption	GJ	31,891	39,476
	Energy efficiency	GJ/MCE	5.97	7.18
	Water consumption	CU.M	33,053	36,465
	Water efficiency	CU.M/MCE	6.19	7.32
	GHG emissions	tCO ₂ e	4,043	4,665
	Emission intensity	tCO ₂ e/MCE	0.76	0.94
	Waste recycled	%	89	87
	Investment in EHS activities	Rs. Million	86.30	60

tCO₂e - Tonnes of Carbon Dioxide Equivalent

GJ - Giga Joules

MCE - Million Cigarette Equivalent

CU.M - Cubic Metres

EXECUTIVE REVIEW AND STRATEGIC POSITIONING



A Step Towards Growth

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Chairman's Review

“The year’s performance attests to the relevance of the Company’s strategy - a win-win-win approach to value creation. It is also a testament to the spirit of my colleagues in the business.”

SURESH KUMAR SHAH
Chairman



Dear Shareholder,

In a year rife with extraordinary challenges, I am pleased to report that Ceylon Tobacco Company PLC (CTC) demonstrated strength, resilience, and agility to deliver a profit after tax of Rs. 15.58 billion, whilst driving continued value creation to its stakeholders. The year's performance attests to the relevance of the Company's strategy - a win-win-win approach to value creation. It is also a testament to the spirit of my colleagues in the business; they quickly adapted to the new norms of working and relentlessly pursued the Company's triple bottom line objectives, despite the numerous operational challenges that prevailed.

With the outbreak of the COVID-19 pandemic in March 2020, CTC's primary focus was to ensure the safety of its employees and value chain partners. The Company implemented extremely stringent health & safety mechanisms and embraced new ways of working. Further, significant resources were invested in ensuring the safety of distributors, retail partners and suppliers.

Overall, Sri Lanka's management of the pandemic has been commendable. However, due to the lockdowns, an economic toll was inevitable. The impact on CTC is reflected in the moderation of its profitability. Nonetheless, the Company continued to deliver on its shareholder commitments, recording a Return On Invested Capital of over 120% during the year. Earnings Per Share amounted to Rs. 83.16 whilst the Net Asset Value Per Share amounted to Rs. 24.57. CTC maintained its position as one of the most valuable listed companies in Sri Lanka, with a market capitalisation of Rs. 192.7 billion by 31 December 2020. This amounted to 7% of the total market capitalisation of the Colombo Stock Exchange (CSE) as at that date. With the final dividend of Rs. 11.35 per share, the total distribution for the year amounted to Rs. 82.85 per share. CTC's 2020 pay-out ratio of 99.63% remains one of the highest amongst the corporates Listed on the CSE, as does its dividend yield of 8% during the year.

The trade in smuggled cigarettes added to the challenges faced by the Company during 2020. The growth in Sri Lanka's illicit cigarette market continues to pose

significant risks to CTC's ability to generate shared value to stakeholders. Since taxes do not add to their costs, smuggled cigarettes provide a cheaper alternative to price pressured consumers. This leads to severe losses in revenue to the Government. More importantly, as the illicit segment operates outside the law, smugglers circumvent the stringent regulatory framework that governs the tobacco industry in Sri Lanka. They avoid compliance with laws such as the display of health warnings and often target the youth. Therefore, allowing the illicit trade to continue unchecked will not only threaten the Government's ability to generate sustainable revenue, but also hamper the delivery of its public health commitments. Whilst commending the Government for strengthening its efforts to combat the influx of illicit products during the year, CTC continues to stress the necessity for a more stringent policy and regulatory framework to fight this disturbing phenomenon. Since an illegal trade has a far-reaching impact on the Country, greater public awareness on the issue, effective enforcement and increased penalties are needed to curb its spread. It is CTC's firm belief that restricting illicit trade is essential for the sustainable growth of state revenues and for protecting the rights of the legitimate industry.

Notwithstanding the challenges in 2020, the Company pursued its win-win-win proposition during the year. This centres on multi-stakeholder value creation; contributing to government revenue, developing the Sri Lankan workforce, empowering communities across CTC's value chains and generating sustainable shareholder returns.

In terms of revenue to Government, CTC contributed over Rs. 110 billion as taxes during the year. This amounted to 8% of the Country's total tax revenue during 2020. Once again, CTC remains the largest individual tax contributor to the Government, a position it has held for many years now.

CTC is one of Sri Lanka's most preferred employers. The Company offers a strong development proposition and international opportunities. This has enabled the Company to develop global business leaders, thereby enriching Sri Lanka's human capital.



Rs. 110 BILLION
CONTRIBUTED TO THE
GOVERNMENT AS TAXES



8%
OF THE COUNTRY'S TOTAL
TAX REVENUE



Rs. 83.16
EARNINGS PER SHARE



99.63%
DIVIDEND PAYOUT RATIO



Rs. 192.7 BILLION
MARKET CAPITALISATION
AS AT 31 DECEMBER 2020

Chairman's Review

“In 2020, the Company re-affirmed its commitment to sustainability by launching its revamped Environment – Social – Governance Framework aligned to BAT’s strategy.”

As a corporate citizen, CTC has been at the forefront of driving national socio-economic progress since its inception, 115 years ago. A report released by ‘Oxford Economics’ in 2020 found that the Company generated over 71,000 jobs across its value chain. This translates to empowering over 286,900 livelihoods. The report further noted that the GDP contribution of such initiatives by CTC stood at Rs. 33 billion. Coupled together with the excise and tax payments to the State, CTC’s total economic contribution is estimated to be over Rs.140 billion, attesting to its role as a catalyst for development.

As a subsidiary of a global sustainability champion – British American Tobacco plc (BAT), environmental, social and governance consciousness has always been an integral part of CTC’s DNA. In 2020, the Company re-affirmed its commitment to sustainability by launching its revamped Environment – Social – Governance (ESG) Framework aligned to BAT’s strategy. CTC’s ESG framework sets out its ambitions of achieving carbon neutrality, empowering livelihoods and championing corporate governance excellence in Sri Lanka. The Board will consistently monitor progress in meeting these objectives whilst ensuring that sustainability factors are given due consideration in decision making. A key element of CTC’s ESG strategy is continuing to enhance its contributions to community investments. Its flagship community investment initiative, the Sustainable Agriculture Development Programme (SADP), has directly contributed towards poverty alleviation and food security, empowering over 80,000 beneficiaries in 20,000 vulnerable rural families through agricultural knowledge transfer, resource assistance and skills development.

The Company benefits from the world-class corporate governance standards of its parent entity. In 2020, CTC further enhanced its governance framework with the launch of the new Standard of Business Conduct (SoBC) Assurance Procedure (which further strengthened the

Whistleblowing process) and the implementation of the 3rd party Supply Chain Compliance Procedure. Moreover, monitoring and disclosures pertaining to compliance were enhanced through increased digitisation. During the year there were no departures from internal BAT policies including the SoBC. More information on the Company’s compliance and governance mechanisms can be found in the Compliance Overview section of this Report.

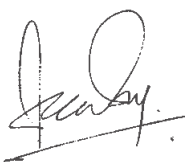
In 2020, CTC became a part of ‘MESA’, BAT’s Middle East and South Asia Area, marking a key milestone in its growth journey. In addition to strengthening governance and compliance frameworks, this transition offers wider opportunities for Sri Lankan employees to obtain overseas exposure through access to 17 markets that constitute this new ‘Area’.

With businesses taking a proactive approach to dealing with the challenges of the pandemic, the gradual roll-out of the COVID vaccine(s) and the opening of the airport for international arrivals, CTC remains optimistic about Sri Lanka’s economic revival by the 2nd half of 2021. Meanwhile, high debt levels and a challenging external environment will continue to weigh on the Country’s economic outlook. However, the Government’s thrust towards strengthening exports, reconfiguring its debt, and supporting businesses through numerous relief measures are expected to augur well for the Country over the medium-to-long term. As an integral part of its socio-economic responsibilities CTC will continue to contribute to the growth and development of Sri Lanka by injecting value to the local economy via its contribution to Government coffers and by creating opportunities across its value chain.

ACKNOWLEDGEMENTS

I join the Board in expressing my appreciation to my predecessor, Mr. William Pegel for his astute leadership and valuable counsel. Our appreciation also goes out to Ms. Amun Mustafiz, who served as the Company's Finance Director and a key member of the Leadership Team. Meanwhile, a warm welcome to our new Directors, Mr. Umair Lugman, Ms. Rumana Rahman and Mr. Stuart Kidd, all of whom have joined the Board since the last AGM. We look forward to their wise counsel in the future. Let me also take this opportunity to thank all my colleagues on the Board for their contributions and insights during the year.

The Company's performance in this challenging year reflects the ability, agility and resilience of its leadership and its people. Thus, on behalf of my colleagues on the Board and myself, I place on record our appreciation to the Company's Managing Director & CEO, Mr. Nedal Salem and the entire team at CTC for their commitment and dedication during these unprecedented times. Finally, let me take this opportunity to thank all our valuable stakeholders for their continued support and confidence in the Company over the years.



SURESH KUMAR SHAH
Chairman



Managing Director & CEO's Review

“CTC strives to drive consistent growth in government revenue, while developing and empowering its people and delivering sustainable shareholder value – a win-win-win approach that ensures long-term sustainability.”

NEDAL SALEM
Managing Director & CEO



Dear Shareholder,

2020 was a year in which the effectiveness of our strategy, the grit of our people and the resilience of our operating model was put to the ultimate test. Against this backdrop, Ceylon Tobacco Company PLC's (CTC) rearticulated purpose of creating A Better Tomorrow™ together with its new ethos and the win-win-win approach to value creation served it well, positioning it to prevail over these extraordinary challenges.

CREATING VALUE THROUGH A RESILIENT STRATEGY

In a year fraught with challenges, the Company continued its trajectory to deliver stakeholder value. CTC strives to drive consistent growth in government revenue, while developing and empowering its people and delivering sustainable shareholder value – a win-win-win approach that ensures long-term sustainability. In 2020, the Company continued to consistently enhance its employee value proposition, nurture mutually beneficial relationships across the supply chain & distribution network, give back to communities and deliver consistent financial performance, which fulfilled the revenue objectives of both the Government and its valued shareholders.

The Company remained steadfast in its commitment to develop a global talent pool by enhancing the competencies and capabilities of the Sri Lankan team. A definitive decision was made to retain all employees at full remuneration during the year and despite the prevailing conditions, CTC expanded its team with the addition of 24 new recruits. During the year, the Company rolled out e-learning solutions through digital platforms, offering opportunities for leadership, functional and technical skills development that are vital for talent and career growth. CTC also continued to offer opportunities for cross border exposure and 7 employees were seconded to BAT's regional and global markets. Staying true to its commitment to build talent pipelines and groom the next generation of leaders, 37 employees were given opportunities for career progression. Having placed

strategic emphasis on maintaining open and ongoing engagement with all our employees, the Company continued to stay connected through virtual town halls, multi-level staff meetings and other virtual events designed to bring people together.

CTC continued to invest in strengthening its manufacturing footprint, whilst proactively exploring means of driving efficiency improvements and minimising waste. Capital expenditure of around Rs. 700 million was invested towards enhancing infrastructure to manufacture new products and formats, including the commissioning of new machinery to produce 67 mm length sticks - a new SKU for CTC. I am pleased to note that the Company made significant progress on its Integrated Work Systems (IWS) journey during the year, driving further improvements in efficiency and product quality.

The disruption to the Company's distribution channel was a key challenge in 2020, particularly during the extended lockdown following the first COVID-19 wave. In addressing this challenge, the CTC team was compelled to rethink its distribution strategy to ensure continued product availability to adult consumers.

As an organisation with deep-rooted relationships across Sri Lanka's tobacco supply chain, CTC is cognisant of its responsibility in driving socio-economic empowerment across farming communities. During the year, agricultural supply chains faced increased pressure from the sharp slowdown in demand and liquidity crisis that followed the outbreak of COVID-19. The Company ensured continued value injection to its contracted tobacco farmers through uninterrupted demand and minimal disruptions. I am pleased to report that in 2020, 100% of the tobacco leaf requirement was sourced from contracted local farmers, thereby injecting Rs. 1.66 billion into the rural economy. The Company also continued to work with its contracted farmers in driving higher productivity, improved yields, and better quality of output, which in turn boosted farmers' income generation capacity.



Rs. 15.58 BILLION
PROFIT AFTER TAX



71,000
JOBS



286,900
LIVELIHOODS SUPPORTED



Rs. 33 BILLION
INFUSED INTO THE
COUNTRY'S GDP



Rs. 1.66 BILLION
INJECTED INTO THE
RURAL ECONOMY

Managing Director & CEO'S Review

“Despite the challenges brought on by the external environment, the Company remains steadfast in its commitment to support more than 286,900 livelihoods across its value chain, generating more than 71,000 jobs across the Country.”

Despite the challenges brought on by the external environment, the Company remained steadfast in its commitment to support more than 286,900 livelihoods across its value chain, generating more than 71,000 jobs across the Country. As a result, CTC has infused Rs. 33 billion into the Country's GDP, over and above the Rs. 110 billion paid as excise duties and taxes to government revenue.

CTC continued to incentivise its distributors, guaranteeing continued employment and financial security of their employees. The Company marked a key milestone during the year with the launch of the 'Abhisheka Insurance Scheme' to support trade partners and their family members, thereby enabling over 2,400 individuals to access high-quality healthcare.

During the year, CTC reaffirmed its commitment to Sustainability by launching a revamped Environmental – Social – Governance (ESG) strategy aligned to BAT's rearticulated agenda. CTC has a long and proud history of ESG achievements and in 2020, the Company made a step change in its commitment by placing sustainability front and centre in all that it does. Accordingly, the Company set 3 stretched targets: achieve carbon neutrality by 2022; maximise sustainable livelihoods supported across our value chain; and champion corporate governance across Sri Lanka. CTC's Corporate Social Investment Programmes (CSI) form a key element in our ESG agenda, specifically contributing to how the Company supports sustainable livelihoods across our value chain. In 2020, CTC invested over Rs. 100 million in ESG related projects and activities. Furthermore, the Company supported over 100,000 people in rural communities across Sri Lanka via its various CSI initiatives.

As a key pillar of our win-win-win strategy, CTC is committed to support sustainable growth in government revenue. However, the consistent rise in Sri Lanka's illicit cigarette market continues to be a deeply concerning issue, having an impact on the Company's ability to contribute to the State's revenue through excise duties

and taxes. In fact, a report launched by the Research Intelligence Unit (RIU) in 2020 estimated that the tax loss experienced by the Sri Lankan Government due to the Country's growing illicit market stood at Rs. 38 billion. I commend the Government's recent efforts in combatting the influx of illicit products, and CTC will continue to extend its fullest cooperation in supporting these efforts. At the same time, we urge the Government to implement reforms - from strengthening the regulatory framework to increasing penalties and driving public awareness, which are urgently required to curb illicit cigarettes.

PERFORMANCE OVERVIEW

The Company's performance during the year attests to the relevance and resilience of its strategy and the effectiveness of its implementation. Despite the downturn in consumer demand and numerous challenges to market access, the Company was able to curtail the drop in volumes to just 13%, which in turn led to a 7% decline in Gross Revenue. Meanwhile, relentless focus on operating efficiencies and productivity improvements, enabled the Company to record a 20% decline in operating expenses, which in turn allowed a marginal widening of the operating profit margin. Overall, the Company generated a profit after tax of Rs. 15.58 billion, a decline of 10% compared to the previous year and a commendable achievement given market conditions and operating challenges that existed. Meanwhile, CTC's financial position remains strong, reflected by its' healthy balance sheet, zero exposure to borrowings and good liquidity buffer.

WAY FORWARD

While cognisant of the short-term challenges that are likely to prevail given the Country's macro-economic pressures, the Company remains optimistic regarding the medium to long-term growth prospects. The roll out of the COVID-19 vaccination, opening of borders for international tourists and policy impetus towards stimulating businesses is expected to drive economic activity, positioning Sri Lanka on a strong platform to capture emerging opportunities. As one of Sri Lanka's most valuable Listed companies and an integral part of the Country's socio-economic fabric,

CTC is aptly positioned to support the Government in its development agenda and will continue to invest in developing its people and emulating global best practices in governance, sustainability, and corporate citizenship.

ACKNOWLEDGEMENTS

I am confident that the worst of the crisis is behind us, and as we look to 2021 with optimism and hope, I would like to take this opportunity to extend my gratitude to the former Chairman, Mr. William Pegel and the Board of Directors for their valuable counsel and guidance. I welcome the new Chairman, Mr. Suresh Kumar Shah, and the new Board members, and look forward to working with you in the future.

Team CTC inspires me every day and I am fortunate to lead such a committed, dynamic, and professional team. I would also like to thank all our distributors, traders and value chain partners for their continued support and look forward to working with them in the coming year.

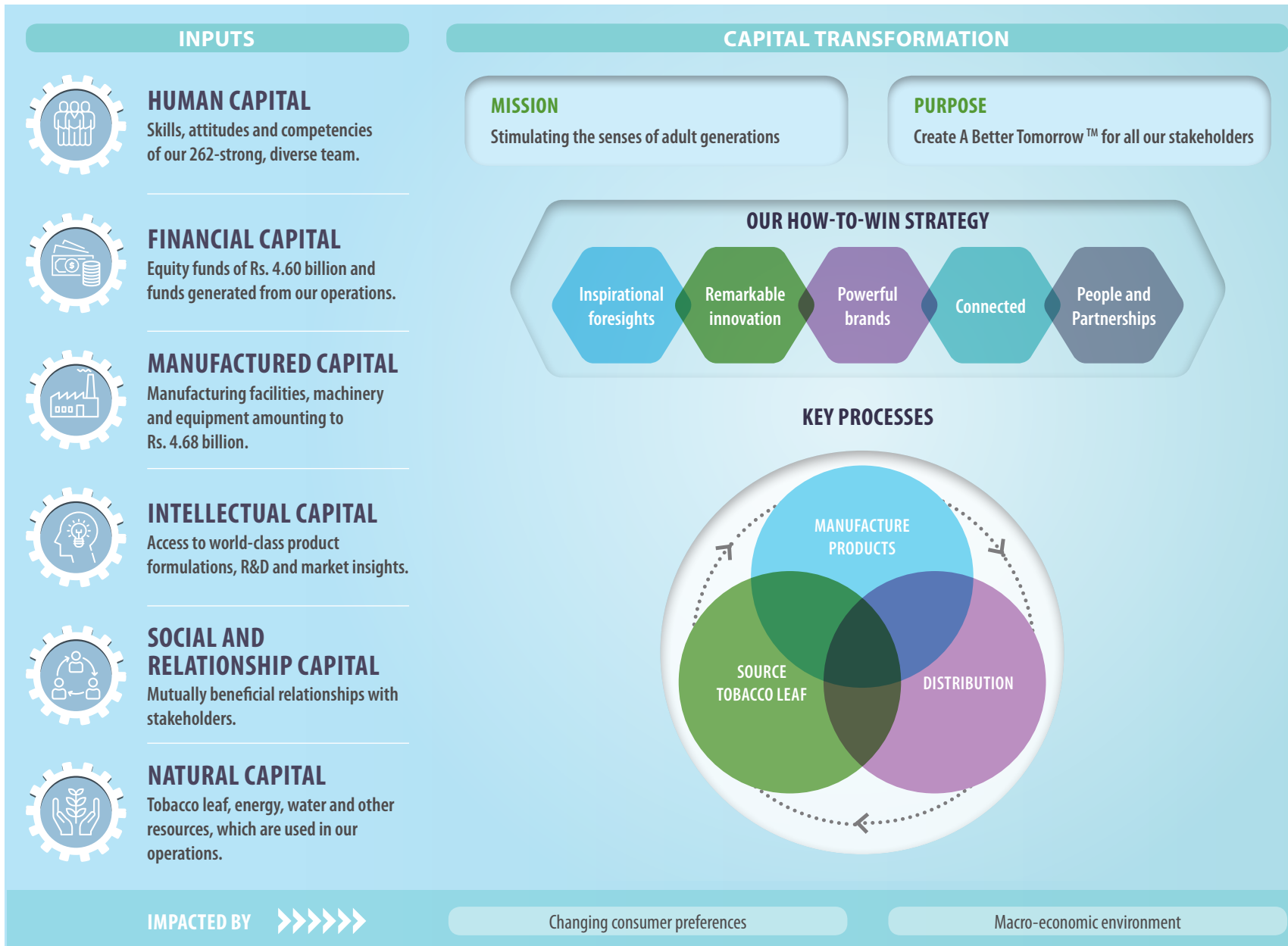


NEDAL SALEM
Managing Director & CEO



Value creation Model

Utilising our manufacturing facilities, machinery, skills, and relationships, we convert tobacco leaf into a range of differentiated, high-quality products. Through this process, we transform our stock of capitals to drive our strategy, deliver stakeholder outcomes and contribute towards several of the UN Sustainable Development Goals.



OUTPUTS



STICKS OF CIGARETTES
2,300 MILLION

PRODUCTS



RENEWABLE ENERGY



SOLAR ENERGY
1,000 KWH



EMISSIONS



GHG EMISSIONS
4,043 tCO2e



OUTCOMES

ADULT CONSUMERS

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

GOVERNMENT

Compliance to all relevant regulations and tax contributions.

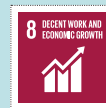
SOCIETY

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.



SHAREHOLDERS

By delivering sustainable and superior returns.

Government policy and regulations

Growth in the illicit and beedi market



Value creation and Trade-offs

INPUTS		CAPITAL TRANSFORMATION	
<p>HUMAN CAPITAL</p>	<p>PERMANENT EMPLOYEES 262</p> <p>SKILLED BOARD 6 <small>(as at 31 December 2020)</small></p>	<p>CONTRACT EMPLOYEES 48</p> <p>STRONG LEADERSHIP TEAM 26</p>	<ul style="list-style-type: none"> Invested in people development and accelerated e-learning. Facilitated digital adoption and work-from-home arrangements. Actioned feedback received from Your Voice survey.
<p>FINANCIAL CAPITAL</p>	<p>EQUITY Rs. 4.6 BILLION</p> <p>MARKET CAPITALISATION Rs. 192.7 BILLION</p>	<p>CASH GENERATED FROM OPERATIONS Rs. 9.9 BILLION</p>	<ul style="list-style-type: none"> Effectively managed working capital cycle and investment portfolio. Implemented cost rationalisation and process optimisation measures. Paid interim and final dividends.
<p>MANUFACTURED CAPITAL</p>	<p>PROPERTY, PLANT, AND EQUIPMENT Rs. 4.7 BILLION</p> <p>ADVANCED MANUFACTURING TECHNOLOGY</p>	<p>MANUFACTURING FACILITIES 2</p>	<ul style="list-style-type: none"> Implemented stringent EHS guidelines. Progressed on IWS Phase 1 journey. Invested on new products and features.
<p>SOCIAL & RELATIONSHIP CAPITAL</p>	<p>ENGAGEMENT WITH INVESTORS AND SHAREHOLDERS</p> <p>STRENGTH OF THE CTC BRAND</p>	<p>PARTNERSHIPS WITH CONTRACTED TOBACCO FARMERS, OTHER SUPPLIERS, DISTRIBUTORS AND TRADERS</p>	<ul style="list-style-type: none"> Ensured health & safety of distributor staff through providing PPE, sanitisers, and conducting awareness sessions. Launched an insurance scheme for traders and families.
<p>INTELLECTUAL CAPITAL</p>	<p>SKILLS AND EXPERIENCE OF OUR TEAM</p> <p>INSIGHTS INTO MARKET & CUSTOMER BEHAVIOUR</p> <p>DIGITAL INFRASTRUCTURE</p>	<p>ACCESS TO WORLD-CLASS RESEARCH, GOVERNANCE AND MANAGEMENT PRACTICES OF BAT</p>	<ul style="list-style-type: none"> Extended financial support for distributors. Invested in community development. Engaged in consumer research through 3rd parties.
<p>NATURAL CAPITAL</p>	<p>TOBACCO PRODUCTION 5,343 MCE</p> <p>ENERGY 31,891 GJ</p>	<p>WATER CONSUMPTION 33,052 CU.M</p>	<ul style="list-style-type: none"> Launched the ESG Framework with clear priorities, goals, and action plans for achieving carbon neutral status by 2022. Used of energy efficient cooling and lighting solutions.
			<ul style="list-style-type: none"> Ensured employee safety. Improved diversity and inclusion. Drove behavioural and attitudinal changes aligned to High Performing Organisations.
			<ul style="list-style-type: none"> Reviewed and updated policies. Cascaded the SoBC policy across the Company.
			<ul style="list-style-type: none"> Upgraded the effluent treatment plant. Converted traditional barns to Loose Leaf Barns, which are fuelled by paddy husk. Stringently monitored of energy and water consumption.

OUTPUTS AND OUTCOMES

- Total employee payments: **Rs. 1.19 billion**
- Promotions: **37**
- Employee productivity: **7%** decrease in net profit per employee
- Accidents and lost-time hours: **Zero**

- Profit before tax: **Rs. 25.4 billion**
- Dividends Paid Per Share: **Rs. 83.63**
- Earnings Per Share: **Rs. 83.16**
- Return On Equity: **300%+**
- Net gearing ratio: **Zero**

- Cigarettes manufactured: **2,300 million** sticks
- Overall equipment efficiency ratio: **69.13%**
- Lowest level of tobacco waste: **6.18%**
- Conformance to quality specifications: **99.6%**

- Payments to contracted tobacco farmers: **Rs. 1.66 billion**
- Taxes: **Rs. 110 billion**
- Investment to ensure people safety across Value Chain: **Rs. 86.30 million**
- Generated over **71,000** jobs across the value chain, which translates to empowering over **286,900** livelihoods.
- Contribution to GDP: **Rs. 33 billion**
- Local procurement of tobacco leaf: **100%**

- Launched **7** new SKUs and **2** new brands during the year.
- Launched the Company's revamped ESG Framework.

- GHG emissions: **4,043 tCO₂e**
- Energy consumption: **31,891GJ**
- Water consumption: **33,053 CU.M**
- Emission intensity (production): **0.76 GJ/MCE**
- Waste recycling: **89%**

TRADE-OFFS

- Employees adapting to new ways of working, built Intellectual Capital.
- Significant investments in providing PPE and implementing other safety measures affected Financial Capital but ensured protection of Human Capital.

- Extension of financial support to distributor partners enhanced Social and Relationship Capital.
- Investments on CSI initiatives further supported Social and Relationship Capital.

- Investments in strengthening manufacturing capabilities negatively impacted Financial Capital, but strengthened Social and Relationship Capital over the long-term.
- Initiatives to improved IWS supported Intellectual Capital.

- Investments in supporting distributors, traders and communities adversely impacted on Financial Capital but support Social and Relationship Capital over the long-term.
- Engagement of farmers and communities in environmental preservation efforts supported Natural Capital.

- Introduction of new products and brands is expected to support Financial Capital in the medium-to-long term.
- Formulation of the Company's ESG Framework would lead to long-term nurturing of Natural and Social and Relationship Capital.

- Investments in renewable energy negatively impacted Finance Capital over the short-term but supported Natural Capital through the reduction of emissions.
- Employee awareness on the ESG goals and action plans strengthened Intellectual Capital.



Strategy for Accelerated Growth

Our evolved strategy was launched in 2019 and provides a clear blueprint for driving transformation of the business by reducing the health impacts of our products and creating A Better Tomorrow™ for all stakeholders. The strategy is centred on 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.



OUR MISSION

Stimulating the senses of adult generations: Today, we see opportunities to capture consumer moments, which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences. Our mission is to anticipate and satisfy this ever-evolving 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 consumer insight platform (PRISM), we will focus on product categories and 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 consumer goods businesses in the world, we have a unique view of the consumer across all of our 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 consumer needs.

REMARKABLE INNOVATION

As 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 our 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 consumers and serve as a promise for quality and enjoyment. We will build the brands of the future by focusing on fewer, stronger, and global brands across all our product categories, delivered through our deep understanding and segmenting of our consumers.

CONNECTED

Few companies can claim over 150 million daily consumer interactions, over 11 million retail points of sale and a global network of expert employees around the world. Cultivating an ecosystem that directly connects us with consumers and stakeholders, especially through the power of digital technology, ensures we can build the brands of the future, deliver access to markets and foster innovations that offer sensorial enjoyment and satisfy consumer needs.





PEOPLE AND 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 customers are also key for ensuring sustainable future growth.

US 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 the deep consumer understanding and financial strength to support the delivery of our mission to stimulate consumer senses around the rest of the world.

We will create A Better Tomorrow™ for:

 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.
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 We are BOLD Dream big - with innovative ideas. Make tough decisions quickly and proudly stand accountable for them. Resilient & fearless to compete.	 We are FAST Speed matters. Set clear direction and move fast. Keep it simple. Focus on outcomes. Learn quickly and share learnings.	 We are EMPOWERED Set the context for our teams and trust their expertise. Challenge each other. Once in agreement, we commit collectively. Collaborate and hold each other accountable to deliver.	 We are DIVERSE Value different perspectives. Build on each other's ideas, knowledge and experiences. Challenge ourselves to be open-minded recognising unconscious bias.	 We are RESPONSIBLE Take action to reduce the health impact of our business. Ensure the best quality products for our consumers, the best place to work for our people and the best results for our shareholders. Act with integrity, never compromising our standards and ethics.
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H
Reducing the **HEALTH** impact of our business

Consumer choice	World-class science	Standards and regulation
E Excellence in ENVIRONMENTAL management Climate change Water Waste Biodiversity and afforestation	S Delivering a positive SOCIAL impact Human rights Farmer livelihoods Health and safety People and culture	G Robust corporate GOVERNANCE Business ethics Responsible marketing Regulation and policy engagement

The Sustainability Agenda now forms an integral part of our corporate strategy and centres on harm reduction and greater emphasis on addressing climate change, driving positive social impacts, and ensuring robust governance practices.

CTC's long-term strategic aspirations are aligned to that of the BAT's, as well as local dynamics impacting the business. These areas are further supported by the Company's ESG priorities, which clearly set out environmental, social and governance aspirations, and the roadmap for long-term, sustainable value creation.

Creating shared value for

 Consumers	 Society	 Employees	 Shareholders
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Industry Overview



MARKET CONDITION

In Sri Lanka, the consumption of legal cigarettes (manufactured only by CTC) has declined significantly. On the other hand, the illicit market as well as the under-regulated and under-taxed beedi industry have recorded accelerated growth.

The decline in the legal cigarette market has been driven by the widening price disparity between legal and illegal products, as frequent excise-led price increases have resulted in price hikes of legal products. While directly impacting our market share, this has defeated the Government's public health as well as revenue objectives.

Meanwhile the beedi market has also expanded at an accelerated pace and currently accounts for 67% of the total combustible market. However, its contribution to the Government's tobacco tax revenue remains relatively insignificant, reflecting the unfair tax burden on legal cigarettes.



REGULATION

Tobacco is amongst the most heavily regulated and taxed industries in the Country, with the National Authority on Tobacco and Alcohol Act (NATA) setting out regulations on product marketing & distribution, product labelling, including graphical health warnings, advertising, and sponsorships.



MACRO-ECONOMIC DEVELOPMENTS

Sri Lanka's macro-economic woes have been exacerbated by the pandemic, with economic activity being severely affected in the 2nd quarter of the year. Extended lockdowns, closure of borders for tourists and weak global demand have had significant and wide-ranging impacts across all key economic sectors, with GDP contracting by 16.3%. A gradual pick-up was recorded in the ensuing months following the resumption of economic activities in the 3rd quarter, resulting in a GDP growth of 1.5%. However, the emergence of the 2nd wave in October 2020 and the rapid spread of infection had a significant impact on 4th quarter growth.



Our sustainability Agenda

In 2020, we revamped our ESG Framework, marking a step-change in our aspirations, placing sustainability at the front and centre of decision making and operations. While being aligned to BAT's sustainability agenda, our Framework has been designed to address specific stakeholder concerns and prioritise the achievement of 12 Sustainable Development Goals (SDGs) through ambitious environmental, social and governance targets. As summarised below, the ESG Framework prioritises the achievement of 4 key objectives and clearly sets out the KPIs, management approach and action plans to achieve these goals by 2025.

CLIMATE ACTION



GOAL
Carbon Neutral by 2022

CTC will adopt a three-pronged approach to achieving carbon neutrality by 2022. We will seek to;

- (1) Reduce emissions through increasing energy efficiency;
- (2) Increase reliance on renewable energy, thereby reducing dependence on fossil fuel-based energy sources; and
- (3) Continuously focus on offsetting emissions through projects such as afforestation.

Policies:

- Environment Policy
- Biodiversity Policy
- Supplier Code of Conduct

KPI:

GHG emissions, energy consumption and intensity, reliance on renewable energy

Relevant SDGs:



SUSTAINABLE LIVELIHOODS



GOAL
Maximise Sustainable Livelihoods Supported by 2025

The Company aspires to empower both its contracted tobacco farmers and communities, thereby creating prosperous livelihoods, while protecting human rights across our supply chain. We also understand the critical importance of nurturing a dynamic and engaged team to drive our strategic aspirations, while offering all our employees a safe and injury-free working environment.

Policies:

- Sustainable Tobacco Programme
- Supplier Code of Conduct
- Human Resource policies

KPI:

Livelihoods supported, employee satisfaction and retention rate

Relevant SDGs:



ETHICS & CONDUCT



GOAL
Champion Corporate Governance Excellence in Sri Lanka

CTC is committed to maintaining the highest degree of integrity, transparency, and accountability in all its operations. As part of a Group, which is globally recognised for its robust governance, the Company has access to international best practices which we are keen to share with our Sri Lankan counterparts, thereby driving governance excellence in the Country's corporate sector.

Policies:

- Standards of Business Conduct
- International Marketing Principles
- Board policies and Terms of Reference

KPI:

Employee training on SoBC, SoBC compliance, Board diversity

Relevant SDG:



ESG CENTRE OF EXCELLENCE



GOAL
ESG Center of Excellence in BAT

The Company aspires to position itself as a centre of ESG excellence in BAT; this will be achieved by implementing a robust ESG agenda and reporting mechanism, driving impactful ESG campaigns, and sharing best practices.

Relevant SDG:

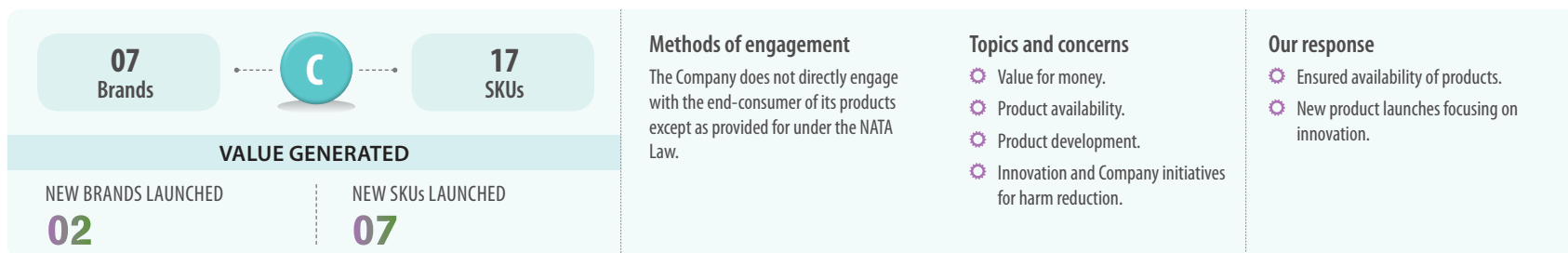




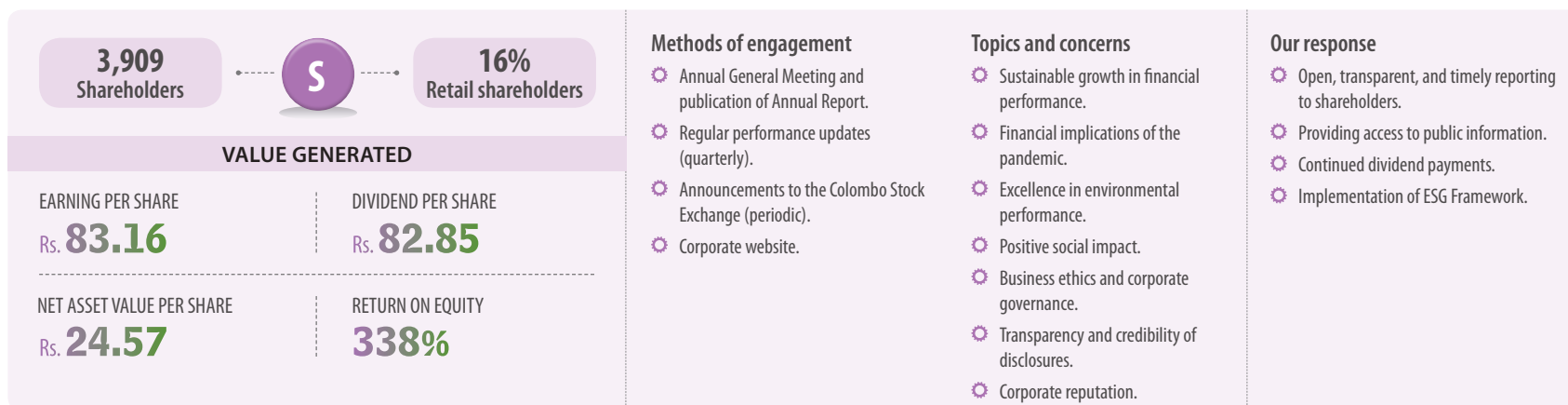
Stakeholder Value

Given the interdependencies with a broad range of stakeholders, it is imperative that we understand and respond to their concerns in a holistic and systematic manner. As a prerequisite of formulating our ESG Framework, we conducted comprehensive stakeholder engagement exercises during the year, enabling the identification of material ESG topics. We engaged the stakeholders who could potentially have a material impact on our ability to create value and sought to build trust and responsiveness through open dialogue.

CONSUMERS



SHAREHOLDERS



EMPLOYEES



CONTRACTED TOBACCO FARMERS AND OTHER SUPPLIERS

<p>20,000+ Persons involved in tobacco farming</p> <p style="text-align: center;">T</p> <p>600+ Non-leaf suppliers</p>	<p>Methods of engagement</p> <ul style="list-style-type: none"> Sustainable Tobacco Programme (STP) Reviews. Disseminating knowledge and best practices. Farmer appreciation programme. Field support to contracted tobacco farmers through Leaf Field Officers. Farmer meetings. Support through CSI initiatives. 	<p>Topics and concerns</p> <ul style="list-style-type: none"> Fair pricing and buy-back guarantees for crop. Sustainable livelihoods. Preserving human rights. Financial assistance. Best practices to improve efficiency and productivity. 	<p>Our response</p> <ul style="list-style-type: none"> 100% leaf requirement sourced locally. Raising awareness on safety and hygiene among farmers. Guidance on implementing sustainable agricultural practices.
VALUE GENERATED			
<p>PAYMENTS TO CONTRACTED TOBACCO FARMERS</p> <p>Rs. 1.66 BILLION</p>			

DISTRIBUTORS AND TRADERS

<p>13 Distributors</p> <p style="text-align: center;">D</p> <p>33,329 Traders</p>	<p>Methods of engagement</p> <ul style="list-style-type: none"> Customer Voice survey for selected distributors and traders (periodic). Trade loyalty programme (ongoing). Engagement through the Trade Marketing team (ongoing). 	<p>Topics and concerns</p> <ul style="list-style-type: none"> Availability of products. Affordability. Credit/payment terms. Service quality. Value added services. 	<p>Our response</p> <ul style="list-style-type: none"> Financial support to ensure commercial sustainability during the pandemic. Significant investments in ensuring safety across the distribution network. Introduced insurance cover for traders and their families.
VALUE GENERATED			
<p>INVESTMENTS</p> <p>Rs. 37.8 MILLION</p>	<p>ENSURED PRODUCT AVAILABILITY.</p>		

LOCAL COMMUNITIES

<p>100,000+ Beneficiaries</p> <p style="text-align: center;">Co</p> <p>Island wide reach</p>	<p>Methods of engagement</p> <ul style="list-style-type: none"> Field support through field officers (ongoing). 	<p>Topics and concerns</p> <ul style="list-style-type: none"> Opportunities for harmonious and mutually beneficial relationships. 	<p>Our response</p> <ul style="list-style-type: none"> Continued engagement and community value creation with focus on, <ul style="list-style-type: none"> Organic home gardening. Water purification. Irrigation for farming.
VALUE GENERATED			
<p>SADP FAMILIES</p> <p>20,000+</p>	<p>CLEAN DRINKING WATER</p> <p>50,000+ LITERS</p>		



Material Matters

The annual assessment of our material topics enable the Company to identify and understand the issues that could positively or negatively impact our ability to create value in the short, medium and long-term. These issues consist of factors that could directly impact our financial performance, as well as ESG priorities and risks, which in turn could impact our triple bottom line over time. The material issues presented below were identified following a mapping of stakeholder concerns to factors identified as most important to our business based on strategic plans, risk registers, governance procedures and policies. Emerging issues are monitored continuously and reported on accordingly.

The material matters for 2020 are presented below. Please refer to Appendix A to see how these selected material topics correspond to the topics prescribed by GRI.



PERFORMANCE AND VALUE CREATION



A Step Towards Hope

- 30 | *Delivering our Strategy*
- 30 | *Illicit Trade and Beedi*
- 32 | *Product Responsibility*
- 34 | *Optimising the Manufacturing Footprint*
- 36 | *Leveraging Our Brands*
- 38 | *Our Product SKUs*
- 40 | *Sustainable Supply Chain*
- 43 | *Strength in Distribution*
- 45 | *Managing People*
- 50 | *Ensuring a Safe Working Environment*



Delivering our Strategy

CTC's strategy is actioned through focus on several key areas, which are central pillars of its business and stakeholder value creation process. The subsequent sections of this Report provide an overview of the progress made in each of these focus areas.

ILLICIT TRADE AND BEEDI



INSPIRATIONAL FORESIGHTS

RELEVANT CAPITALS



FINANCIAL CAPITAL

Erosion of market share due to illicit products directly impacts our Financial Capital.



SOCIAL & RELATIONSHIP CAPITAL

Supporting the Government and relevant authorities in tackling illicit trade.



INTELLECTUAL CAPITAL

Leveraging on our industry experience and expertise to generate shared value.

“Despite being the only legal manufacturer of cigarettes in Sri Lanka, CTC has experienced a consistent decline in market share due to the substantial and continued growth in the illicit market. In addition to eroding our market share, the growth in illicit trade has deprived the Government of legitimate tobacco taxes and led to an increase in tobacco consumption.”



ILLICIT TRADE IN SRI LANKA

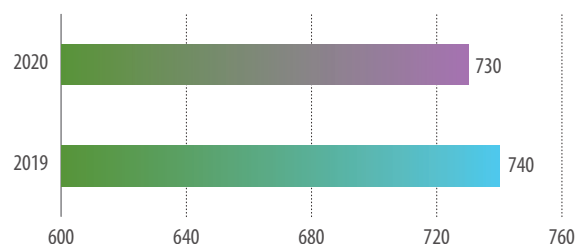
Sri Lanka's illicit cigarette trade has increased by a CAGR of around 87% from 2016-2020, driven by increasing price differentials between legal and illicit products and broader macro-economic pressures. Successive governments have considered the legal cigarette industry as a reliable source of tax revenue. In line with our win-win-win approach to value creation, we have remained committed to contributing to national development through consistent growth in tax contributions. However, regular hikes in excise duties have led to consistent and significant price increases in our products. For instance, the price of a legal cigarette has increased by almost 100% between 2015 and 2019, making the price of cigarettes in Sri Lanka the most expensive in the world, based on purchasing power parity as per the World Health Organisation (WHO). The widening price disparity between legal and illicit products have provided impetus for significant growth in the latter, which is now estimated to account for nearly 24% of the Country's total cigarette consumption.

In addition to its direct impact on our market share, the continued growth in the illicit market has led to several undesirable consequences, including the year-on-year decrease in government revenue. In 2020, this loss was estimated to be Rs. 38 billion. As legal volumes decline, it also threatens over 286,900 livelihoods dependent on the legal value chain. Further, as witnessed in other markets, widening price differentials between legal and illicit products leads to an increase in tobacco consumption, thereby undermining the Government’s public health objectives. For instance, while CTC’s volumes have gradually declined, the Country’s total tobacco consumption has increased over time.

FAST FACTS

SMUGGLED CIGARETTES

Million sticks



TAX REVENUE DEPRIVED TO GOVERNMENT

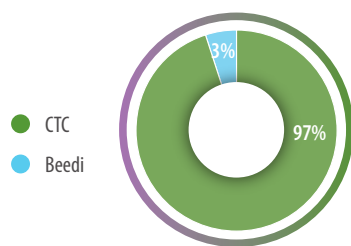
Potential annual loss in tobacco tax revenue to the Government due to the decline in volumes of legally manufactured cigarettes and growth in the illicit market.

Rs. **38** BILLION

TAX CONTRIBUTION

CTC accounted for a significant portion of total tax from tobacco contributions while its market share stood at only 25%.

TAX FROM TOBACCO



CTC MARKET SHARE

The legal industry’s share in Sri Lanka’s tobacco market has recorded consistent decline due to the continued growth in illicit and beedi market shares.

25%
(2019: 31%)

THE BEEDI MARKET

Sri Lanka’s beedi market has also recorded a steady growth, accounting for 67% of total tobacco consumption in 2020. Despite an increase in taxes applicable for the import of tendu wrappers in 2019, beedi continues to be relatively under taxed and underregulated. Contribution from beedi amounted to just 3% of total tax revenue collected from the tobacco sector in 2020. This reflects the unfair tax burden on legal cigarettes. In recent years, there has also been a notable increase in smuggled tendu leaves into the Country, further depriving the Government of legitimate tax revenue.

WAY FORWARD

We will continue to place strategic emphasis on supporting relevant authorities in tackling illicit trade and preventing sub-standard products from entering the market. We remain deeply concerned that the rapid growth in the illicit market could undermine the socio-economic contribution that could accrue from our win-win-win approach to value creation. This multi-stakeholder approach focuses on driving sustainable growth in government revenue, developing capabilities of our employees & value chain partners, empowering communities and driving sustainable shareholder value. 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.

Unlike legal cigarettes, which are required to comply with the NATA Act, traders of illegal cigarettes do not comply with any such rules and regulations. Furthermore, the illicit cigarette trade has been linked to transnational criminal activities including funding of narcotics, weapons and terrorism.

Curbing the growth in illicit trade requires strong cooperation between the Government, law enforcement agencies and the legal industry. We have continued to support the Government in its efforts to fight smuggling, through raising public awareness and sharing world class practices and procedures driven by BAT globally. The Supply Chain Compliance Procedure (SCCP) makes specific reference to ensuring that tobacco products are not diverted to illicit channels through Know-Your-Customer (KYC) and Know-Your-Supplier (KYS) evaluation and approval procedures.

Delivering our Strategy

PRODUCT RESPONSIBILITY



REMARKABLE INNOVATIONS

RELEVANT CAPITALS



FINANCIAL CAPITAL

Enhancing value creation to adult consumers through international product standards, which ensure quality.



SOCIAL & RELATIONSHIP CAPITAL

Partnering with distributors and traders to ensure responsible marketing practices across our distribution network.



INTELLECTUAL CAPITAL

Benefiting from the tacit knowledge and innovative capabilities of our parent entity.

“We adhere to extremely stringent standards on manufacturing and marketing, as set out by a suite of globally consistent policies. This approach ensures that our adult consumers benefit from world-class research capabilities and industry-leading product standards of our parent entity.”



RESPONSIBLE MARKETING

The Company's marketing operations are governed by BAT's International Marketing Principles (IMP) which clearly set out our commitment towards marketing our products responsibly. The IMP are centred on the premise that our products are intended strictly at adults and are not designed to engage or appeal to youth. The IMP covers all aspects of marketing and is complemented by ongoing internal training on marketing-related aspects.

The NATA Act and its regulations also set out clear guidelines on product marketing and labelling, which includes tri-lingual 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. During the year, there were no instances of non-compliance concerning these aspects.

YOUTH ACCESS PREVENTION

In addition to the IMPs, CTC also adheres to BAT's global Youth Access Prevention (YAP) guidelines. These ensure that individuals under the legal age (21 in Sri Lanka) do not have access to our products and include mandatory requirements to provide traders with point-of-sale materials with YAP messaging. The Company also works directly with traders to uphold minimum age laws and provide training and awareness on preventing access to youth. Stringent governance mechanisms are in place to monitor compliance to these guidelines.

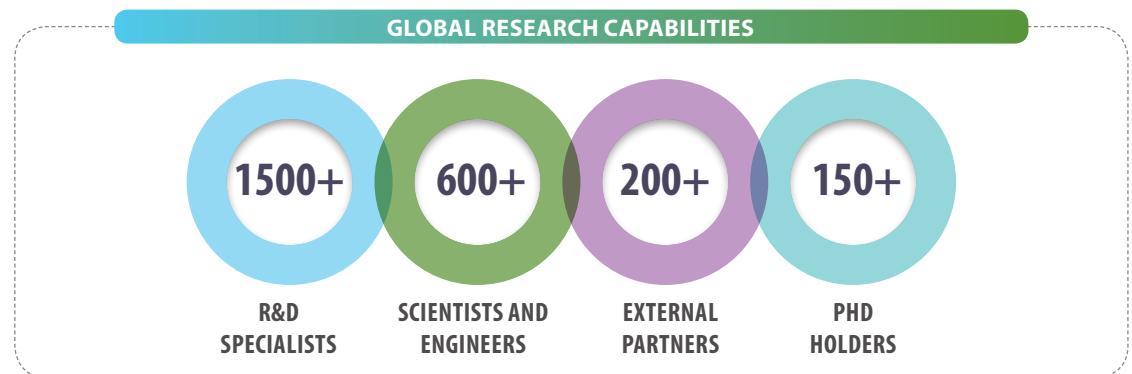
HARM REDUCTION

Harm reduction is a key component of BAT's evolved corporate strategy as it aspires to reduce the health impacts of the business through offering a greater choice of less risky products to adult consumers. Since the launch of its first vapour product in 2013, BAT has made significant progress in developing a range of non-combustible products such as vaping, tobacco heating and modern oral products, thereby offering a wider choice of enjoyable nicotine alternatives to adult consumers. New product development is backed by world-class research capabilities, multi-disciplinary risk assessments and deep insights into adult consumer preferences and behaviour. New category products are available across 48 markets and BAT is keen to expand its reach of this product range in the short-to-medium term.

PRODUCT STANDARDS

CTC benefits from access to world-class research and product standards of its parent. 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.

Innovation at BAT is underpinned by:



WAY FORWARD

We are keen to leverage the research and innovation capabilities of our parent entity to offer Sri Lankan adult consumers a wider choice of products. Accordingly, we continue to explore consumer attitudes and preferences towards harm reduction and new category alternatives, which can pave way to reducing the overall health impacts of our business in the medium to long-term.

Delivering our Strategy

OPTIMISING THE MANUFACTURING FOOTPRINT



REMARKABLE INNOVATION

RELEVANT CAPITALS



HUMAN CAPITAL

Adoption of stringent EHS measures to ensure the safety of all employees.



INTELLECTUAL CAPITAL

Progression on the IWS journey through leveraging organisational knowledge and insights.



NATURAL CAPITAL

Ongoing focus on reducing the environmental impacts of our operations.

“Transforming our manufacturing capabilities to be more agile and efficient, while minimising the environmental impacts of our operations is a key priority, which will support product, commercial and environmental aspirations.”



INVESTMENTS IN MANUFACTURED CAPITAL

The Company's drive to increase efficiency and reduce waste through optimising its manufacturing infrastructure continued throughout the year. We successfully commissioned new machinery required to manufacture the 67mm length sticks - a new SKU for CTC. A key achievement was our team's ability to step up to the challenge of installing and converting the machinery; a complex task, which would have typically been carried out by the foreign original equipment manufacturer. We also invested around Rs. 700 million on infrastructure to manufacture new products and formats, which would fulfil emerging market demands.

THE IWS JOURNEY

We also made significant progress on the IWS journey, recording broad-based improvements across several key indicators. Overall Equipment Efficiency (OEE), Mean Time Between Failures (MTBF), product quality indicators, and waste generation recorded improvements during the year. The long-term objective of IWS is to transform our manufacturing capabilities through process improvement, progressive maintenance, education, training & quality, and we hope to successfully achieve Phase 1 by Q2 2021.

ENSURING EMPLOYEE SAFETY

Stringent COVID-19 related health & safety measures were adopted to ensure the safety of all employees including changing shift operating patterns to minimise cross infection of individuals, random PCR testing and provision of advanced PPE to all employees. We also marked an improvement in general health & safety, with zero lost time injuries and zero serious injuries. Meanwhile, the Leaf operations achieved fully compliant status of BAT’s EHS Global Health Check Review. (Refer to Health & Safety on page 50 for further information)

MITIGATING ENVIRONMENTAL IMPACTS OF MANUFACTURING

We continued to drive proactive efforts towards reducing the environmental footprint of our manufacturing operation in line with the long-term aspirations set out in the ESG Framework. We focused on driving reductions in our carbon footprint through energy efficiency and reducing dependence on fossil fuels. We proactively monitored our water consumption to identify means for sustained improvements in efficiency and recorded reductions in solid waste (Please refer to our EHS Performance on page 57 for further information) during the year.

WAY FORWARD

We will continue to place strategic emphasis on driving efficiency and productivity improvements, and successfully obtain Phase 1 compliance status of IWS, marking a key milestone in our journey. We also hope to upgrade our manufacturing capabilities and technology in 2021, which will provide improved agility and efficiencies while enabling the addition of new features. Strategic emphasis will be placed on increasing reliance on renewable energy in line with our ambitious goal of achieving carbon neutrality by 2022.

MEASURING SUCCESS

MANUFACTURING EFFICIENCY

We have made considerable progress in improving efficiency and productivity in line with the implementation of IWS.

OEE
69.13%
(2019: 61.4%)

MTBF
9.34 MINUTES
(2019: 6.74)

PRODUCT QUALITY

Improvements in product quality are assessed through Quality to Specification (Q2S) levels and consumer complaints.

Q2S
99.6%

REDUCTION IN CONSUMER COMPLAINTS
15%

SAFETY

Stringent measures were adopted to ensure the health & safety of all employees.

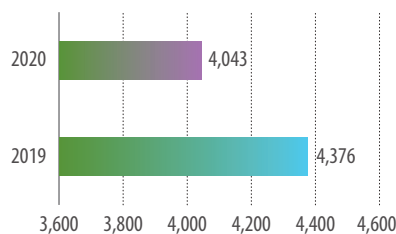
REPORTABLE INCIDENTS
ZERO

ENVIRONMENTAL FOOTPRINT

We continued to progress towards our long-term environmental aspirations, recording improvements in water and energy consumption, waste generation and GHG emissions.

REDUCTION IN CARBON FOOTPRINT
13%

GHG EMISSIONS tCO₂e



Delivering our Strategy

LEVERAGING OUR BRANDS



POWERFUL BRANDS

RELEVANT CAPITALS



Increasing consumer value by further enhancing our portfolio.

HUMAN CAPITAL



Strengthening capabilities to manufacture new products and brands.

MANUFACTURED CAPITAL



Preserving Financial Capital in a difficult year by leveraging the equity of our brands.

FINANCIAL CAPITAL

“We offer a multi-category portfolio of brands, which has allowed us to effectively cater to diverse adult consumer needs across market segments. This approach serves us well, as we leverage the brand equity of our products to drive continued growth.”



BRAND PERFORMANCE IN 2020

It was a year of unprecedented challenges, marked by extended lockdowns, disruptions to distribution and pressure on consumer affordability. Despite these challenges, the Company performed commendably during the year to curtail the decline in volumes to 13%. Our key brands demonstrated strong resilience supported by a sound distribution strategy, which ensured availability of products despite the operational constraints that prevailed during the year (Refer Strength in Distribution on page 43 for further information)

PRODUCT INNOVATION

We maintained focus on our market segmentation strategy, while building brand equity across our key brands of John Player and Dunhill. Despite the numerous operational challenges that prevailed in 2020, we continued to enhance our consumer proposition delivering value continuously.

MEASURING SUCCESS

MARKET SHARE

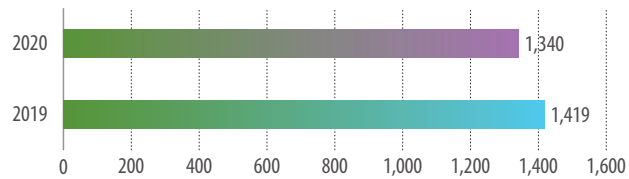
Our key brands John Player and Dunhill performed commendably, with the former retaining its market share.

TURNOVER

The turnover recorded a decline of 7% to Rs. 132.15 billion during the year.

GROSS REVENUE

Rs. Billion



SALES VOLUME

The Company demonstrated strong resilience to stem the decline in volumes to 13%.

STICKS

2.3 BILLION
(2019: 2.6)

PRODUCT PORTFOLIO

We continued to enhance our value offering to adult consumers through the launch of new brands, and SKUs.

BRANDS

07

SKUs

17

WAY FORWARD

Democratising innovation will be a key priority over the short-to-medium term as we seek to enhance our offering in the value-for-money segment. Focus will also be placed on enhancing our premium segment further with additions to the Dunhill range, while we continue to consolidate and build brand equity of John Player.

Delivering our Strategy

OUR PRODUCT SKUs



Dunhill Double Capsule Green



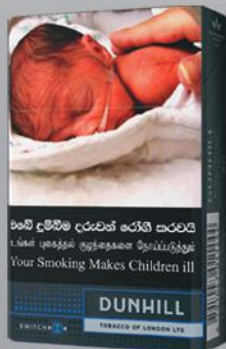
Dunhill Double Capsule Yellow



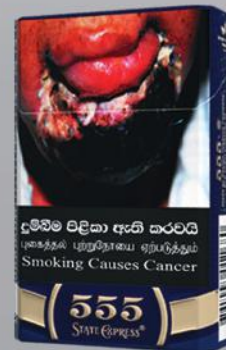
Dunhill Grey



Dunhill Blue



Dunhill Switch



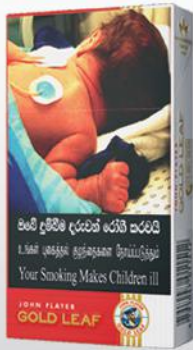
State Express 555



Benson & Hedges (B&H)



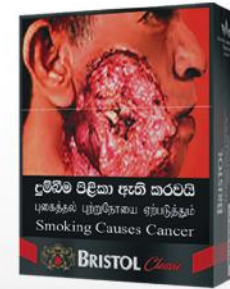
John Player Gold Leaf (20)



John Player
Gold Leaf (12)



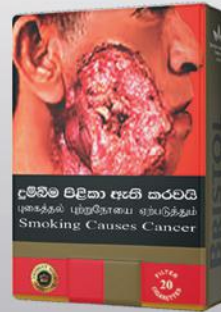
Shuang Xi
International



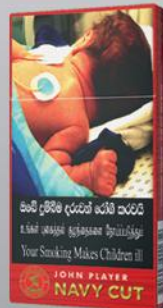
Bristol Classic



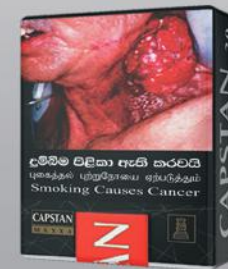
John Player
Gold



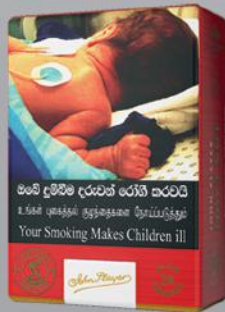
Bristol Gold



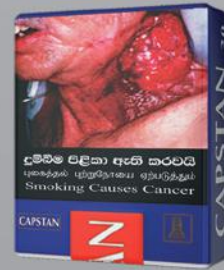
John Player
Navy Cut (5)



Capstan Maxxa



John Player
Navy Cut (20)



Capstan

Delivering our Strategy

SUSTAINABLE SUPPLY CHAIN



PEOPLE & PARTNERSHIPS

RELEVANT CAPITALS



HUMAN CAPITAL

Ensuring continued value injection to tobacco farmers through uninterrupted demand.



NATURAL CAPITAL

Significant reduction in energy consumption and carbon footprint through LLB conversion.



MANUFACTURED CAPITAL

Optimising process infrastructure through ongoing initiatives.



FINANCIAL CAPITAL

Significant investments in ensuring the health & safety of contracted tobacco farmers.

“We are committed to creating prosperous livelihoods for our contracted farmers and continue to work with them in increasing yields and productivity, which ultimately drives better incomes, while securing the tobacco leaf supply chain.”



SUPPORTING FARMER LIVELIHOODS

The Company supports 20,000+ people involved in the tobacco cultivation value chain through a multi-faceted value proposition, which includes guaranteed buyback at pre-agreed prices, guidance on improving efficiency and productivity, sustainable agriculture, and community support. Despite the numerous challenges that prevailed, we ensured continued value injection to our contracted farmers through uninterrupted demand and minimal disruptions to the supply chain - one of the very few agriculture-based companies to do so. We sourced 100% of our tobacco requirement from local farmers, thereby injecting Rs.1.66 billion to the rural economy.

PRODUCTIVITY DRIVE

We made significant progress in our efforts to drive greater yields, higher productivity, and better quality, which in turn boost contracted farmer incomes. In 2020, 80% of tobacco leaf sourced was from hybrid varieties, resulting in 7% and 8% improvements in Yield Per Hectare (YPH) in the Maha and Yala seasons, respectively. Processing efficiency also recorded improvements, with throughput and OEE of the Green Leaf Threshing Plant (GLTP) increasing during the year. Key initiatives included the following:

Conversion of traditional barns to LLBs fuelled by paddy husk

Tobacco curing has been carried out in traditional barn systems that are fuelled by paddy husk, a renewable biomass energy source. In 2020, the Company made significant investments in converting these traditional barns into Loose Leaf Barns (LLBs). CTC became the world’s first to convert LLBs to operate on paddy husk, which is estimated to further improve efficiencies and decrease emissions. The technology is also expected to drive reductions in labour usage, curing costs and minimise health & safety risks. Two units were successfully converted as a pilot project during the year and we hope to convert 100% of our traditional barns to this model over the next 5 years.

USE OF RENEWABLE ENERGY

100%

REDUCTION IN CURING COST

29%

REDUCTION IN LABOUR REQUIREMENTS

30%

Efficiency improvements in GLTP

Continued focus on driving processing efficiencies, optimising energy consumption and improving productivity led to broad-based improvements in yields, throughput, and OEE.

Automated purchasing

Digitalising the purchase process in 3 depots and 6 buying centres, facilitated the availability of comprehensive real-time information which enabled better monitoring and robust controls.

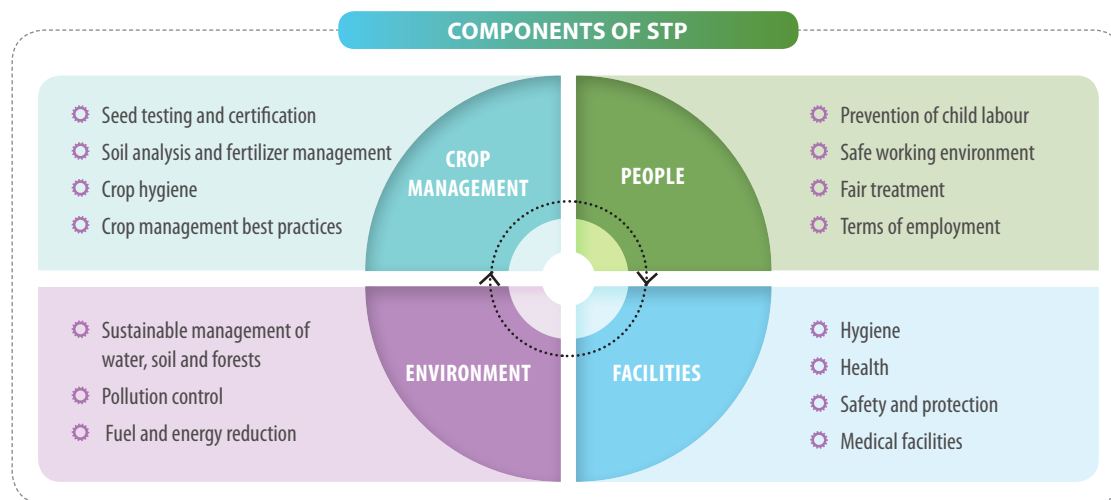
During the year, the Company also successfully completed the Global Leaf Buying Audit, a comprehensive end-to-end assessment on our purchasing processes conducted by BAT. Sri Lanka emerged as the only Country to be certified as compliant across all aspects of the audit. BAT’s Global EHS Audit was also completed successfully during the year.

ENSURING THE SAFETY OF FARMERS

Following the outbreak of COVID-19 in March, we commenced ongoing awareness sessions for our contracted farmers, sharing best practices on minimising the risk of infection. We conducted 60 such sessions at depot and buying centre level while also providing required PPE for farmers, field officers and employees at the GLTP.

SUSTAINABLE TOBACCO PROGRAMME (STP)

All 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 of people. It is aligned to international standards including the International Labour Organisation (ILO) and the UN Guiding Principles on Business and Human Rights. Compliance is monitored through a Farmer Sustainability Monitoring App, used by the extension officers to track a range of indicators allowing access to all relevant information on a real-time basis.



NON-LEAF SUPPLIERS

The Company engages with over 600 non-leaf suppliers for the procurement of packing materials, machinery & equipment, office supplies, consumables, and indirect services. Despite disruptions to operations during the year, we continued to support these partners through timely settlements and uninterrupted demand, which in turn contributed to their commercial sustainability.

Delivering our Strategy

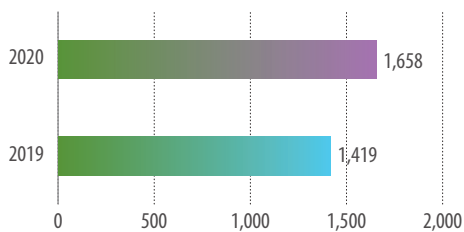
MEASURING SUCCESS

VALUE INJECTION TO THE RURAL ECONOMY

Ensured uninterrupted procurement of tobacco leaf, which ensured continued value injection to contracted tobacco farmers.

PAYMENTS TO CONTRACTED TOBACCO FARMERS

Rs. Million



EFFICIENCY INDICATORS

Broad-based improvements in leaf yields and GLTP efficiency during the year.

LIVELIHOODS SUPPORTED

We offer a multi-faceted value proposition to our contracted farmers, empowering them to lift themselves out of poverty.

CONTRACTED FARMERS
ASSURED PURCHASE AT PRE-
AGREED PRICES

100%

CONTRACTED FARMERS
PLACED ABOVE THE GLOBAL
POVERTY LINE

100%

ENVIRONMENTAL FOOTPRINT

Conversion of traditional barns to LLBs and improved energy efficiencies at the GLTP have contributed towards the reduction in energy consumption and GHG emissions.

DECLINE IN DIRECT ENERGY
CONSUMPTION

4%

DECREASE IN
EMISSIONS

5%

MATERIAL CONSUMPTION IN 2020

RENEWABLE MATERIALS

GREEN LEAF

2,779 MT

NON-RENEWABLE MATERIALS

GLTP OTHER PRODUCTION MATERIALS

794 MT

WRAPPING MATERIALS

2,634 MT

*MT - Metric Tons

WAY FORWARD

Unit manufacturing costs are likely to increase in the short-term, given persistent economic woes, which will result in stagnant volume growth in 2021. In mitigating this challenge, we will seek to progress further on our productivity and efficiency drive. Reducing the environmental footprint of our operations will also be a priority as we seek to increase reliance on renewable energy and drive down our carbon footprint.

We also intend to implement the BAT's global procurement system for non-leaf suppliers in 2021, which is expected to accrue considerable benefits in efficiencies.

STRENGTH IN DISTRIBUTION



PEOPLE & PARTNERSHIPS

RELEVANT CAPITALS



HUMAN CAPITAL

Strengthening relationships with distribution partners by supporting their commercial sustainability.



INTELLECTUAL CAPITAL

Adapting to the new normal by providing new insights on distribution efficiencies.



FINANCIAL CAPITAL

Supporting our distributors impacted Financial Capital, but strengthened Social and Relationship Capital.

“Our route-to-market approach is critical in executing our strategy and ensuring the availability of our products. We have always taken the view that joint value creation with our distributor and retail partners is an imperative in driving profitable growth and have made considerable investments in ensuring the sustainability of our distribution partners.”



DISTRIBUTION STRATEGY IN 2020

Agility and adaptability were key to navigating the complexities presented by the operating landscape in 2020. As traditional distribution networks were impacted by the restrictions imposed, we were compelled to rethink our strategy to ensure continued product availability to adult consumers. Efficient route planning enabled us to optimise deliveries in spite of restrictions in mobility and access. Meanwhile, we increased product availability across our network.

Delivering our Strategy

SUPPORTING OUR BUSINESS PARTNERS

Our distributor and trade partners faced numerous challenges, reflecting the inevitable toll of the pandemic. Despite the sharp drop in volumes, we continued to incentivise our distributors, which in turn guaranteed the financial security of their employees. Additional value creation included the following:

- Distributing 900+ packs of essential food items for distributor staff at a total cost of Rs. 6.1 million.
- Ensuring safety across the network by providing PPE, masks, and hand sanitizers to all distributor employees.
- Weekly sessions on health, safety, and hygiene to distributor staff through digital channels.

VALUE CREATION TO TRADING PARTNERS

We continued to invest in 'Abhisheka' - our trade loyalty programme through which we offered opportunities for capacity building, and ensured health & safety across the network. A key achievement during the year was the launch of 'Abhisheka Insurance Scheme' for our traders and their families. Through this unique initiative, over 2,200 traders obtained access to a medical insurance and hospitalisation cover of up to Rs.1.5 million, the annual premium of which was paid by CTC. Given the prevalent health & safety risks following the outbreak of COVID-19, this timely initiative has provided our traders and their families with access to high-quality medical care.

DISTRIBUTION OF VENDOR CARTS

The vendor cart project was launched in 2019, with the objective of combining our social objectives with our business aspirations by providing vendor carts to socially and economically vulnerable individuals in rural communities. During the year we distributed 800 carts facilitating job creation and economic empowerment.

WAY FORWARD

Adapting to the new realities of the pandemic have armed us with fresh insights on more efficient and effective route to market and delivery channels. Strengthening our presence in e-commerce platforms will be a key priority and we hope to embrace the learnings obtained during this period to further enhance distribution efficiencies. We will also continue to strengthen our relationships with distributor and trade partners, ensuring their commercial sustainability and supporting them.

MEASURING SUCCESS

DISTRIBUTION CAPABILITIES

In responding to the crisis, we pursued growth through new channels while consolidating our presence across traditional distribution channels.

DISTRIBUTORS
13

TRADERS
33,329

HEALTH INSURANCE FOR TRADERS

The 'Abhisheka' scheme offers medical and hospitalisation insurance of up to Rs.1.5 million

TRADERS
2,200+

INVESTMENT
RS. 14.7 MILLION

STRENGTH OF RELATIONSHIPS

We have nurtured long-term, mutually beneficial relationships with our distributors through a multi-faceted value proposition.

LENGTH OF DISTRIBUTOR RELATIONSHIPS



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

DISTRIBUTOR SUPPORT

We ensured the health & safety of our distributors and their employees.

INVESTMENT
RS. 17 MILLION

PPE PROVIDED
900 Distributor staff

MANAGING PEOPLE



PEOPLE & PARTNERSHIPS

RELEVANT CAPITALS



INTELLECTUAL CAPITAL

Nurturing tacit knowledge through adapting to new ways of working.



FINANCIAL CAPITAL

Considerable investments in ensuring the safety of our employees.



NATURAL CAPITAL

Proactive employee engagement in driving the new ESG Framework.

“Our competitive edge is underpinned by the attitudes and competencies of our team and we place strategic emphasis on creating a rewarding, fulfilling and dynamic work environment in which they can thrive.”



A WINNING ORGANISATION

Our people strategy revolves around building a dynamic and inclusive organisational culture, which attracts, engages, and retains talent. HR ways of working are governed by comprehensive policy frameworks which are aligned to that of BAT and revised to ensure compliance to local regulations and market practices. The policy framework is designed to ensure:

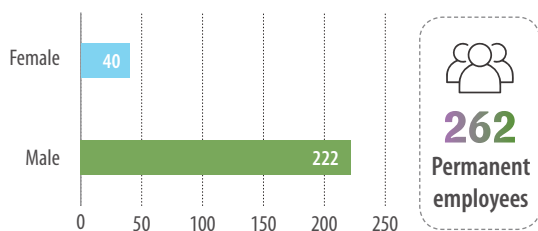
- ⦿ Equal opportunity to each employee.
- ⦿ Fairness at work and an environment of openness.
- ⦿ Accountability for performance.
- ⦿ Fair, clear and competitive remuneration and benefits.

Delivering our Strategy

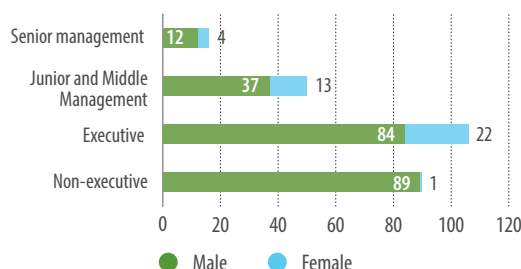
Our Team

CTC's high-performing, agile team consists of 262 permanent employees. The enhanced value proposition we offer to employees has enabled us to emerge as an employer of choice, with the ability to recruit and retain the right talent.

EMPLOYEES BY GENDER



EMPLOYEES BY CATEGORY AND GENDER



TRAINING & DEVELOPMENT

Achievement of our strategic aspirations necessitated the development of critical capabilities across the Company. We continued to offer opportunities for cross border exposure, with 7 CTC employees given International Assignment (IA) opportunities, either on short/long-term engagements or global transfers. During the year we accelerated e-learning offered through digital platforms, offering an array of development opportunities in functional, leadership and technical skills. In alignment with BAT's global talent development agenda, training programmes were formulated at regional level and customised to suit local needs.

During the year, 37 employees were promoted, reflecting our commitment to build talent pipelines and nurture the next generation of leaders.

PROFILE OF NEW RECRUITS

NEW RECRUITS BY GENDER

20
Male

83%

4
Female

17%

NEW RECRUITS BY AGE

21
21-30 years

87%

3
30-55 years

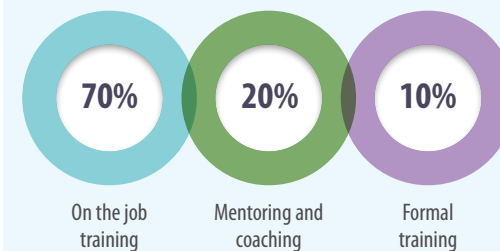
13%

PPE and continued engagement on health and hygiene standards (refer to Ensuring a Safe Working Environment from pages 50 to 52).

EMPLOYEE ENGAGEMENT

The Company has established a range of engagement channels, which enables it to identify and respond to employee needs. The 'Your Voice' survey is conducted every 2 years and is an effective way of gauging employee pulse on rewards, training, work environment and health & safety. In 2020, focus was placed on actioning the feedback received the previous year. Other ongoing forms of engagement included town hall sessions, digital engagement, and recreational activities.

LEARNING & DEVELOPMENT PHILOSOPHY



NEW WAYS OF WORKING

The Company swiftly adapted to the new realities of the year, facilitating remote working for employees through the provision of required IT and network infrastructure. As far as practically possible, all employee engagements including meetings, town halls, business updates and training initiatives were shifted to digital platforms. We also ensured the safety of all factory and other employees who were required to come into our facilities to perform their roles. The health & safety of our marketing and leaf employees were also ensured through the distribution of

We respect our employees' right to be represented by recognised trade unions and enter into collective agreements. Approximately 35% of our employees are represented by trade unions and covered by a collective agreement, which forms the foundation for harmonious industrial relations between these employees and the Company. The operating challenges that prevailed during the year necessitated a high level of engagement with trade unions and we ensured their concerns and suggestions were taken fully into consideration when determining work arrangements during the pandemic.

ONGOING TRAINING INITIATIVES

- Digital Learning
- Leadership Development: Leading Self and Leading Teams
- IWS Capability Development for Manufacturing Employees
- Global Graduate Academy

PERFORMANCE MANAGEMENT AND RECOGNITION

The Company's rewards structure is designed to motivate and retain high-performing employees, whilst nurturing a performance-driven culture. During the year, we focused on nurturing behaviours and attitudes identified in High Performing Organisations (HPO); aligned to the Organisational pillar of IWS, the HPO principles centre on flexibility, resilience, learning and personal growth. Employees displaying these behaviours are recognised through the performance management system and given increased visibility through a recognition board, which serves to showcase their achievements. Total remuneration to employees was 1.19 billion in 2020, reflecting salary increases across several employee categories as we took a long-term view to value creation and retention.

DIVERSITY AND INCLUSION

Diversity and Inclusion is a key global priority for BAT, with regions, end markets and business functions adopting action plans to implement the global agenda. CTC's approach centres on ensuring balanced access at entry level, coaching and mentoring programmes to support women's development, and providing opportunities for engagement and networking.

RETENTION

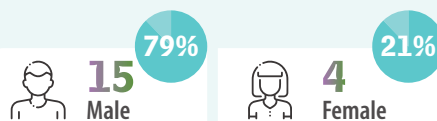
The Company's overall retention levels remained relatively healthy at around 95%, attesting to our holistic employee value proposition and strength of the employer brand.

WOMEN OF WORTH (WOW)

The WOW initiative aims to provide a platform for women to connect, engage and share experiences. Driven by a cross-functional team of women, the platform has provided an opportunity to improve visibility on female talent, build talent pipelines and collectively address issues facing the female workforce, both in their professional careers and personal lives. During the year, curated programmes were carried out for different segments of our female workforce, including mothers, married and single ladies, and a survey was conducted to identify the varying needs of women in these categories. Key initiatives carried out:

- 🌱 Quarterly mental health programmes for all 3 categories.
- 🌱 Movie date night.
- 🌱 Virtual games night for all single ladies.
- 🌱 Creating opportunities to highlight CTC female talent in the external space.
- 🌱 Momsplaining- a social media engagement platform for mothers.
- 🌱 Mother's Day celebration.
- 🌱 Quarterly Mother's roundtable discussion on topics of interest.
- 🌱 Men's Day, virtual town hall session to celebrate diversity within the organisation.

TURNOVER BY GENDER



TURNOVER BY AGE



Delivering our Strategy

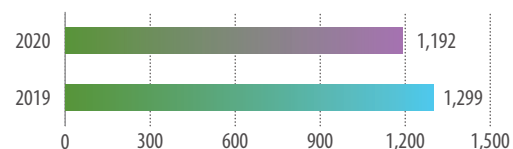
MEASURING SUCCESS

VALUE CREATION

Remuneration paid to employees decreased by 7% during the year.

PAYMENTS TO EMPLOYEES

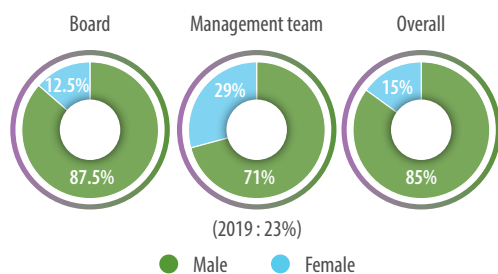
Rs. Million



DIVERSITY

Increasing female representation at leadership level is a key component of our diversity agenda.

FEMALE REPRESENTATION

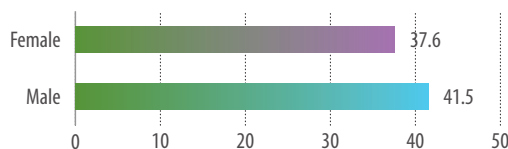


TRAINING AND DEVELOPMENT

The Company invested approximately Rs. 13 million in developing talent during the year.

AVERAGE TRAINING HOURS (BY GENDER)

Hours

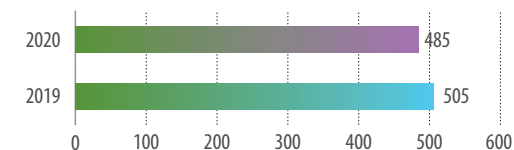


PRODUCTIVITY

Productivity is measured through 'value-added-per employee', which decreased by 4% during the year.

VALUE ADDED PER EMPLOYEE

Rs. Million



WAY FORWARD

We will continue to offer flexible and remote working arrangements, thereby ensuring the safety and well-being of our employees. Key areas of focus for 2021 will be driving the Diversity and Inclusivity agenda, talent development focusing on digital platforms and strengthening leadership capabilities.

UNION COMMITTEE - COLOMBO



UNION COMMITTEE - KANDY



Delivering our Strategy

ENSURING A SAFE WORKING ENVIRONMENT



PEOPLE & PARTNERSHIPS

RELEVANT CAPITALS



HUMAN CAPITAL

Implementing proactive measures to ensure the health & safety of all our employees.



SOCIAL & RELATIONSHIP CAPITAL

Adopting stringent safety measures including awareness & training and distribution of PPE to our business partners.



FINANCIAL CAPITAL

Considerable investments in distributing PPE and implementing safety measures.

“Health & safety aspects gained centre stage in 2020 and we adopted stringent measures to minimise the risk of COVID-19 infections in our operations and across our distribution network.”



COMMITMENT TO HEALTH & SAFETY

Our commitment to provide a safe and injury-free work environment extends to all employees, distribution partners, tobacco farmers and other contractors. Health & safety aspects are governed by BAT's integrated EHS guidelines. A cross functional EHS Steering Committee, supported by departmental committees ensure that; these guidelines are implemented across the Company, monitor performance and identify areas for continuous improvement. Our approach 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 under the collective agreements.

RESPONSE TO COVID-19

At the onset of the pandemic, the Company invoked its Business Continuity Plans (BCPs) and its Crisis Management Team took leadership in driving COVID-19 response efforts. This Team met regularly to review the ongoing situation and identify emerging risks. We introduced a range of health & safety measures to ensure the safety of our employees. This commitment was also extended to our business partners as we provided ongoing training and distributed PPE to all distributor staff and contracted tobacco farmers.

EMPLOYEES	CONTRACTED TOBACCO FARMERS	DISTRIBUTION PARTNERS
<ul style="list-style-type: none"> ⚙ Provision of PPEs including full body suits. ⚙ Distancing measures on the factory floor. ⚙ Manual and automatic disinfection chambers. ⚙ Random PCR tests. ⚙ Changed shift schedules for factory employees to minimise interaction. ⚙ Facilitated remote working arrangements for office employees. ⚙ Ongoing training and awareness sessions. 	<ul style="list-style-type: none"> ⚙ Distribution of PPE and sanitisers free of charge. ⚙ Training and awareness sessions to share best practices. 	<ul style="list-style-type: none"> ⚙ Provision of PPE and sanitizers free of charge. ⚙ Weekly sessions on health, safety, and hygiene through digital channels.

NURTURING A CULTURE OF SAFETY

We have introduced several unique initiatives across the Company with the aim of nurturing a culture of safety through sharing best practices and recognising positive behaviour.

- ⚙ **NEAR MISS:** Employees and 3rd party logistics partners are encouraged to report potential safety risks and hazards through a mobile app, with the aim of instilling a safety culture within the organisation and raising awareness on hazards. Follow-up on all reports are actioned by the EHS Manager. Operational level employees have also been given quarterly targets for incident reporting.
- ⚙ **PULSAR:** Involves the mutual observation of employees' safety behaviour and providing reinforcement on positive aspects, which is expected to condition employees to continuously adopt these behaviours.

COMPLIANCE AND AUDIT

A key achievement during the year was the successful conclusion of a global EHS audit at our Kandy facility. The audit covered 4 key pillars including health & safety policies and procedures, infrastructure investments, training & development, as well as safety of contractors. Following this audit, measures were taken to revamp certain key processes, improve infrastructure as well as enhance training of contractors.

Delivering our Strategy

MEASURING SUCCESS

HEALTH & SAFETY RECORD

Our Colombo premises and trade operation marked 20 years remaining injury-free, with zero lost time while our leaf operation marked 1 year, attesting to the effectiveness of our health & safety strategy.

LOST DAY RATE
ZERO

INJURY RATE
ZERO

OCCUPATIONAL DISEASE RATE
ZERO

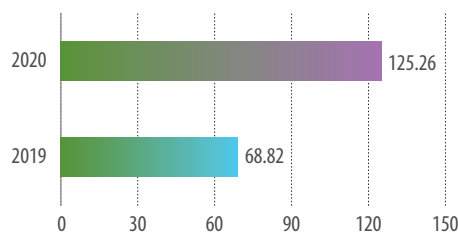
WORK-RELATED FATALITIES
ZERO

INVESTMENTS IN HEALTH & SAFETY

During the year, we invested Rs. 86.30 million in health & safety initiatives supporting employees, contractors, contracted farmers and distribution partners.

HEALTH & SAFETY INVESTMENT

Rs. Million



COVID-19 SUPPORT

Measures were taken to minimise the risk of infection not only at our premises but also across our supply chain and distribution network.

PPE DISTRIBUTED

1,800
Farmers

900

Distributor employees

AWARENESS SESSIONS CONDUCTED

60

Farmers

WAY FORWARD

As risks related to COVID-19 are expected to prevail over the short-to-medium term, we will maintain relentless focus on ensuring that the risk of infections is minimised at our operating locations as well as across our supply chain and distribution network.

OUR ESG PERFORMANCE



A Step Towards Sustenance

54 | *Environment*

59 | *Social*

64 | *Governance*



Environment

“We recognise that good environmental management is not only the right thing to do, but also makes sound business sense given how much we depend on natural resources for our operations. Securing access to these resources as well as being prepared for future changes and the impacts of climate change, is key to ensuring the sustainability of our business.”



KEY PRIORITY: CLIMATE ACTION

Climate action is our key environmental priority, and we have set an ambitious goal of achieving carbon neutrality by 2022 through a three-pronged approach aimed at reducing emissions, increasing reliance on renewable energy, and carrying out afforestation programmes.

WATER AND WASTE

We are driving proactive efforts to achieve sustainable reductions in our water footprint, while ensuring the responsible disposal of our waste.

SUSTAINABLE AGRICULTURE

We work with our contracted farmers to propagate sustainable agricultural methods, which help preserve eco-systems and reduce the environmental impacts of their operations.

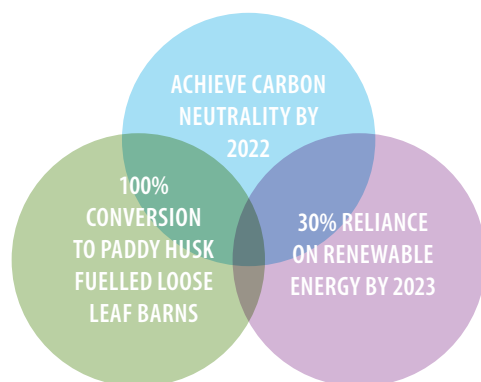
CIRCULAR ECONOMY

There is growing global consensus on the need for eliminating plastic waste, which over the long-term can degrade natural habitats and eco-systems. We are keen to imbue BAT's aspirations to eliminate single-use plastic, not just in our operations, but across our supply chain.

CLIMATE ACTION

“As the impacts of climate change intensify, countries, organisations and communities are being called upon to accelerate their efforts to drive down emissions and build in carbon consciousness to their decision making.”

OUR GOALS



GLIDE PATH

Sustained reduction in emissions

Increase reliance on renewable energy

Afforestation

MANAGEMENT APPROACH

We are governed by BAT's Environmental Policy, which outlines the commitment to minimising environmental impacts and preserving the environment in line with globally accepted principles of sustainable development. A comprehensive EHS system ensures the implementation of the Environmental Policy, which is driven by an EHS Steering Committee. In line with our 2025 climate related targets, annual goals have been set for carbon reduction, and performance against these targets are monitored consistently.

Driving reductions in emissions

Most of our emissions arise from our manufacturing facility, Green Leaf Threshing Plant and distribution fleet. We have installed over 75 energy monitoring points at our manufacturing facilities, which allows us to clearly identify consumption, intensity levels and areas for improvement. LED solutions account for nearly 80% of our lighting requirements, while a state-of-the-art magnetic bearing chiller plant ensures energy efficient cooling. Most of our air conditioning and other machinery & equipment also run on inverter technology. Our trade marketing vehicle fleet has also been converted to hybrid vehicles.

Renewable energy

Reducing dependence on fossil fuels through renewable energy generation is a key short-to-medium term priority, as the Company gears up to fulfil 30% of its energy consumption through renewable sources by 2025. We are gearing up to install a 2MW solar panel at the Colombo facility and a 400KW panel at our Kandy premises in 2021 with plans to convert 4 leaf depots to renewable energy over the next 3 years. The 100% conversion of traditional barns to paddy husk fuelled Loose Leaf Barns over the next 5 years is expected to further reduce emissions in the tobacco curing process.







Afforestation

- Biodiversity site in Maragamuwa, Matale: The Company maintains a 123-acre Government-owned land in Matale, in partnership with the University of Peradeniya, which is currently exploring ways to convert the eucalyptus forest into an indigenous forest. CTC provides required funds for the maintenance of the land.
- Reforestation project in Sigiriya: We have joined efforts with the Forest Department to plant 3,500 species of indigenous trees in a Government owned 12-acre land in Sigiriya, which is a part of the Murungahitikanda Forest Reserve. CTC will provide required funds to convert the land into a forest over the next 5 years.
- Distribution of saplings: During the year, 1,000 mango saplings were distributed to tobacco and non-tobacco farmers and we hope to widen the scope of this initiative in 2021.

Environment

Progress and Results in 2020

In 2020, we recorded a 13% decline in our GHG emissions to 4,043 tCO₂e; meanwhile emission intensity also recorded an improvement to 0.76, reflecting ongoing efforts in energy efficiency and process innovation. Our energy and emission results are set out below:

PILLAR	RELEVANT SDG AND TARGETS	KPI
 <p>EMISSIONS</p>	 <p>Target 13.1 : Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries</p> <p>Target 13.2 : Integrate climate change measures into national policies, strategies, and planning</p>	<p>GHG EMISSIONS 4,034 tCO₂e (2019: 4,665)</p> <p>EMISSION INTENSITY 0.76 tCO₂e/MCE (2019: 0.94)</p>
 <p>ENERGY</p>	 <p>Target 7.2 : By 2030, increase substantially the share of renewable energy in the global energy mix</p> <p>Target 7.3 : By 2030, double the global rate of improvement in energy efficiency</p>	<p>ENERGY CONSUMPTION 31,891 GJ (2019: 39,476)</p> <p>GENERATION OF RENEWABLE ENERGY 12 Mw</p>
 <p>AFFORESTATION AND BIODIVERSITY</p>	 <p>Target 15.2: By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally</p>	<p>TOTAL TREES PLANTED 3,500</p> <p>SAPLINGS DISTRIBUTED 1,000</p> <p>TREES MAINTAINED 47,500+</p>

*GHG emissions are computed based on the GHG Protocol published by the World Resource Institute and World Business Council for Sustainable Development

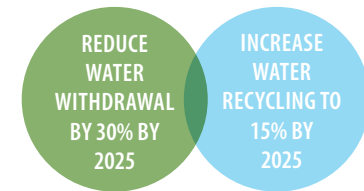
WATER AND WASTE MANAGEMENT APPROACH

Water

We consume water primarily for cleaning and hygiene purposes. The use of water in our manufacturing operation is far less as they are not water intensive processes.

Although our manufacturing processes are not highly-water intensive, given the increasing risks of global and local water scarcity, we are committed to do our part to achieve sustained reductions in our water footprint. BAT's Environmental Policy

sets out guidelines on the measurement, management and effective reduction of water consumption, the implementation of which is supported by the Company's EHS system and driven by the EHS Steering Committee.



Implementation of IWS has helped optimise water consumption in our factory through a range of initiatives including eliminating leakages and increasing recycling. Over 30 monitoring points ensure the timely and reliable tracking of water consumption. We have also upgraded water tracking by bringing nearly 70% of underground monitoring points above ground, thereby ensuring increased visibility and accessibility. We also launched a Building Management System during the year, which provides access to real time information on water consumption.

Supply chain impacts: We work with our contracted tobacco farmers in propagating sustainable water use through irrigation methods. These practices are governed by the STP and Supplier Code of Conduct, which set out the minimum standards we expect from all our suppliers in minimising environmental impact (refer to Sustainable Agriculture on page 58 for further information)

Effluents & waste

We are committed to recycling the water discharged from our operations and are currently upgrading the Effluent Treatment Plant (ETP) to increase recyclable capacity to around 8.7%. Recycled water is used for non-critical activities such as gardening and cleaning of roadways.



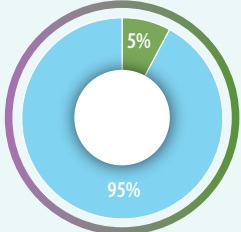




Our waste comprises of tobacco waste, waste from green leaf threshing as well as polythene, cardboard and food waste. Nearly 90% of our waste is recycled at present with plans to improve this rate to 98% by 2025. We are currently

also exploring avenues to eliminate single-use plastics in our direct operations and along our supply chain.

The Company's hazardous waste consists primarily of its electronic waste (including printer toners and LED bulbs) and oil waste. We have also initiated a comprehensive waste management agenda to ensure the proper disposal of waste as given in the table across.

SOLID WASTE	Type of waste	Method of disposal	% recycled
	Tobacco waste	Sent to Holcim Lanka Ltd for alternative fuel generation	100%
	Waste wrapping and packaging material	Third party recyclers	95%
	Food waste from canteen	Sent for recycling	95%
	Used CFL and Fluorescent light bulbs	Sent to a recycling facility operated by Orel Corporation	100%

Progress and results in 2020

PILLAR	RELEVANT SDG AND TARGETS	KPI															
 <p>EMISSIONS</p>	 <p>Target 6.3: By 2030, improve water quality by reducing pollution, eliminating dumping, and minimising release of hazardous chemicals and materials, halving the proportion of untreated wastewater, and substantially increasing recycling and safe reuse globally</p> <p>Target 6.4: By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity</p>	<p>WATER WITHDRAWAL BY SOURCE</p>  <p>REDUCTION IN WATER CONSUMPTION 9%</p> <p>WATER RECYCLED 3.17 MILLION LITRES (9% of water withdrawn)</p>															
 <p>EFFLUENTS</p>	 <p>Target 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling, and reuse</p> <p>Target 15.3: Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle</p>	<p>Water discharge destination</p> <table border="1"> <thead> <tr> <th>Destination</th> <th>Litres</th> </tr> </thead> <tbody> <tr> <td>Sewerage lines</td> <td>13,762,210</td> </tr> <tr> <td>Recycled through ETP</td> <td>3,167</td> </tr> <tr> <td>Ground through soak pits</td> <td>9,954</td> </tr> </tbody> </table> <p>WATER DISCHARGED 13.78 MILLION LITRES (1% increase compared to the previous year)</p>	Destination	Litres	Sewerage lines	13,762,210	Recycled through ETP	3,167	Ground through soak pits	9,954							
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Sewerage lines	13,762,210																
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Other	12.0																

Environment

SUSTAINABLE AGRICULTURE MANAGEMENT APPROACH

As an organisation which relies on agricultural input, we are cognisant of the role we can play in propagating sustainable agricultural practices, which preserves the environment while increasing the resilience of farmers. The Sustainable Tobacco Programme sets out criteria for a range of areas relating to environmental protection, including waste management, recycling, and crop management (refer Chapter on Sustainable Supply Chain page 40 for further information).

Our leaf field team of 38 employees engage closely with contracted farmers, providing technical assistance and training on sustainable farming practices and technologies. Performance is monitored through a Farmer Sustainability Monitoring App, which allows farmers to input relevant assessment information and provide verification using biometrics.

Meanwhile, the Company's organic home gardening initiative, SADP has contributed towards uplifting rural communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment. CTC continued to support 4,100 tobacco farmers to grow alternative food crops as part of SADPUltra (refer Social chapter on page 59 for further information).

CIRCULAR ECONOMY MANAGEMENT APPROACH

Given the increasing scarcity of natural resources and environmental degradation caused by waste, circular economy is gaining global traction. BAT considers the principles of circular economy as an opportunity to deliver better products, create efficiencies and drive innovation across our operations. Accordingly, a circular economy strategy is currently being developed to identify and capitalise on such opportunities.

At CTC, we have identified several areas, which can contribute towards a circular economy, as illustrated below. In the short-to-medium term, we will prioritise the complete elimination of single-use plastics and introduce eco-friendly alternatives, particularly in the kitchen and canteen areas. Over the longer-term, we are committed to extending this across our supply chain, through which we will seek to eliminate single-use plastics from the sourcing of our raw materials to the distribution of finished products.





Social

“As a responsible corporate, we have an important role to play in delivering a positive societal impact for our employees and people across our supply chain. Enhancing farmer livelihoods, respecting human rights and looking after our people adds value to society and is a pragmatic and commercial approach that secures the long-term sustainability of our business.”



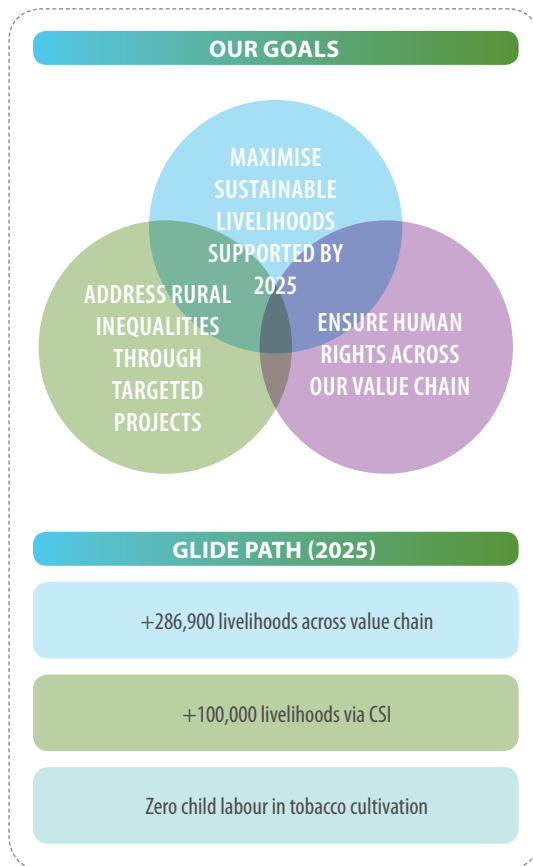
KEY PRIORITY: SUSTAINABLE LIVELIHOODS

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 underprivileged communities.

HUMAN RIGHTS

As an organisation with an extensive supply chain and distribution network, we are cognisant of the role we can play in ensuring fair labour practices and preserving the dignity of labour across our value chain.

Social

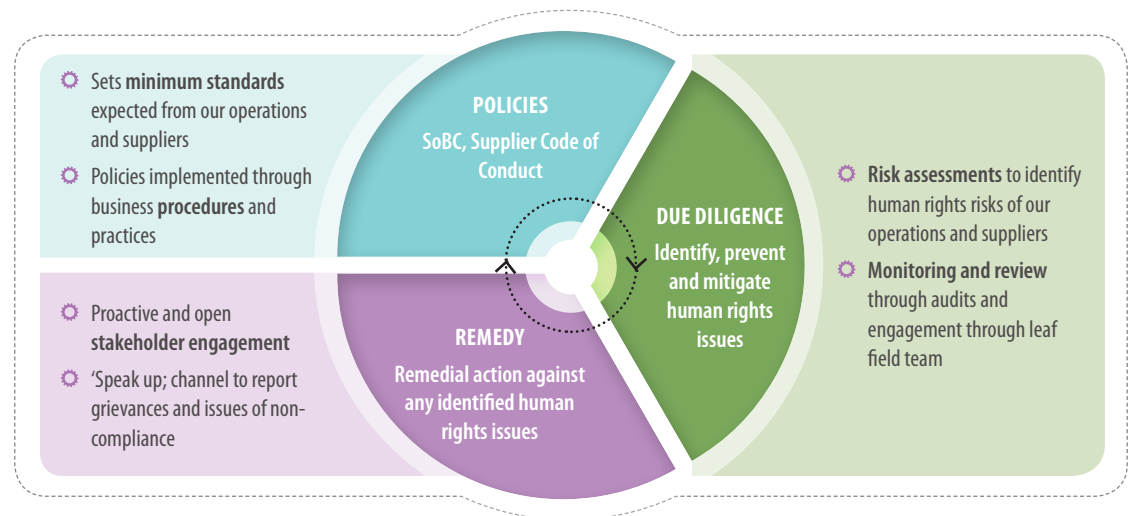


HUMAN RIGHTS

“As an organisation relying on agricultural input materials, we are exposed to the risk of human rights issues along the tobacco supply chain. CTC adheres to BAT’s stringent policies on human rights, which demonstrates our commitment to conducting operations in a way that respects the rights of our employees, business partners, and the communities in which we operate.”

MANAGEMENT APPROACH

SoBC includes the Workplace and Human Rights Policy, which is aligned to the UN Guiding Principles on Business and Human Rights and the ILO’s Declaration on Fundamental Principles and Rights at Work. Meanwhile, the Supplier Code of Conduct and Sustainable Tobacco Programme Policy sets 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.



ASSESSING OUR SUPPLY CHAIN

Our leaf team maintains close engagement with our contracted tobacco farmers. The Farmer Sustainability Monitoring app covers 100% of our contracted 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 is taken to remedy any situation. Other suppliers adhere to the requirements set out in the Supplier Code of Conduct, which includes assessment criteria on child and forced labour.

SUSTAINABLE LIVELIHOODS

“We seek to drive sustainable and meaningful change in the lives of our contracted farmers and wider rural communities, by multi-faceted community engagement initiatives, which include providing access to basic infrastructure and agricultural skill development.”

MANAGEMENT APPROACH

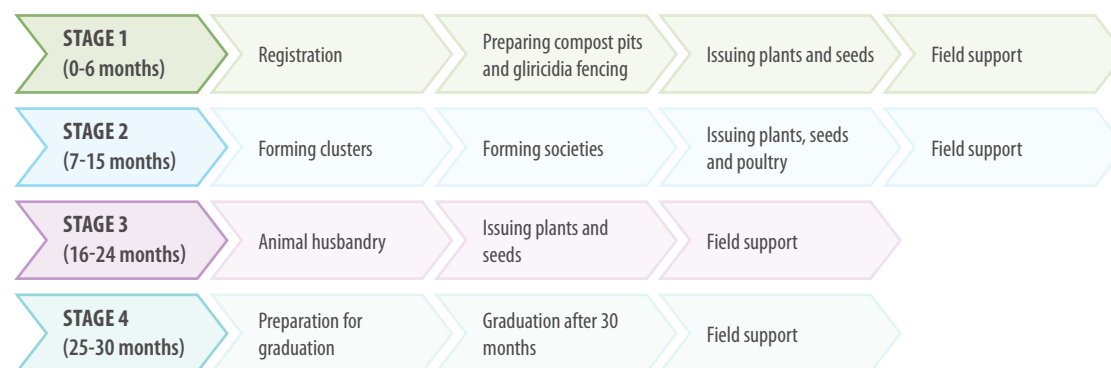
Our approach is governed by BAT's Strategic Framework for Corporate Social Investment, which articulates how companies are expected to develop, deliver and monitor community investment programmes. All CSI activities are managed at a local level to effectively cater to community specific challenges and drive needs-based development.

A dedicated Board sub-committee is in place to ensure that CTC's CSI projects are aligned to BAT's Framework and that projects are managed in accordance with the Statement of Business Principles.

SUSTAINABLE AGRICULTURE DEVELOPMENT PROGRAMME (SADP)

The SADP is the Company's flagship CSI initiative; it was launched over a decade ago with the objective of contributing towards uplifting communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment. To date, the programme has directly benefited over 80,000 economically underprivileged individuals in more than 20,000 families across 16 districts. Activities related to SADP are carried out through Outreach Projects (Guarantee) Limited, an independent and dedicated organisation set up for the execution and management of ESG related activities including CSI projects.

The programme is structured in a manner that provides individuals living below the poverty line in selected villages 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 30 months as illustrated below.



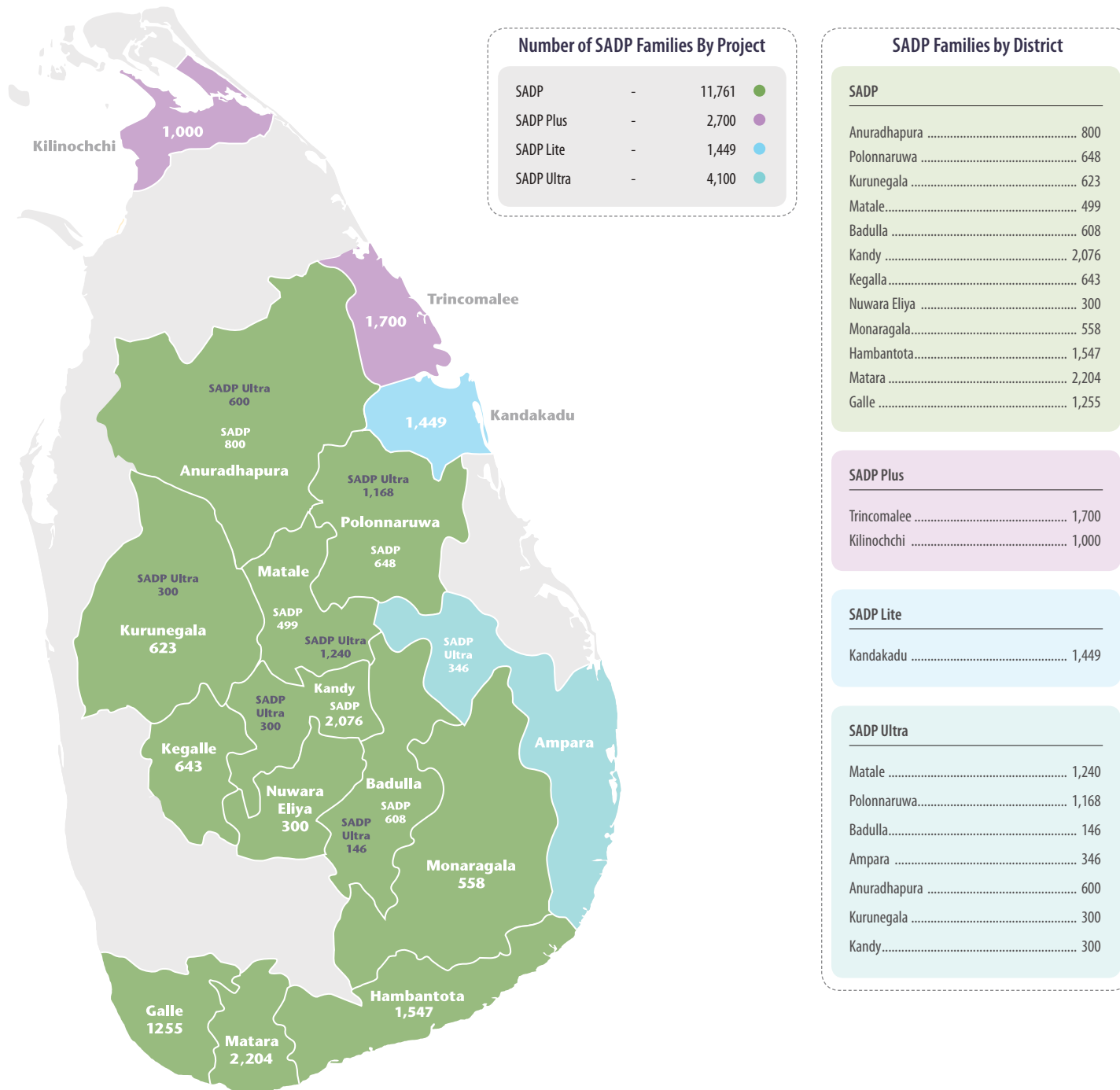
SADP aims to enhance the nutrition levels of beneficiary families by increasing the daily calorie intake in line with WHO recommendations and provides an additional source of income through the cultivation of alternative crops such as vegetables and maize.

Over the years, several variants of the programme were launched based on the specific needs of the respective target communities. These include:

- 🌱 SADP*Plus*: Provision of agricultural inputs enabling families to cultivate a range of cash and other crops for their consumption.
- 🌱 SADP*Lite*: Agriculture related vocational training to support ex-LTTE combatants that were undergoing rehabilitation.
- 🌱 SADP*Mega*: Establishment of a 12 acre model farm in Sooriyawewa to serve as a knowledge hub to local farmers.
- 🌱 SADP*Ultra*: Provision of agricultural inputs to cultivate cash crops such as maize among tobacco farmers.
- 🌱 SADP *Argo-wells*: construction of 100 agro-wells in drought-stricken areas of Welioya to provide water for drinking and irrigation.










Since its launch, SADP and its variants have generated wide-ranging benefits to vulnerable communities, driving socio-economic empowerment and uplifting livelihoods.

Social



CSI INITIATIVES CARRIED OUT

<p>HOME GARDENING FOR SADP FAMILIES</p> <p>The Company introduced organic home gardening to 600 new families across 3 districts in Sri Lanka. The families were given training and provided with resources such as seeds and saplings to develop their home gardens.</p>	<p>FAMILIES GRADUATED 1,800</p>	<p>FAMILIES ADDED 600</p>	<p>WATER FOR IRRIGATION</p> <p>The Company continues to support rural farmer organisations to rebuild and repair irrigation channels, sluice gates and other infrastructure, which will support agricultural activities and ensure the continued supply of water.</p>
<p>PROVISION OF CLEAN DRINKING WATER</p> <p>This initiative supports rural farming communities in which Chronic Kidney Disease is highly prevalent, through the installation of Reverse Osmosis (RO) plants. During the year we installed and commissioned 5 plants, with 5 more in the pipeline. The Company has commissioned 7 RO plants since 2019, benefiting more than 21,000 people and will continue to support vulnerable communities to access clean drinking water.</p>	<p>FAMILIES 3,750</p>	<p>POTABLE WATER (PER DAY) 50,000 LITRES</p>	<p>RURAL FARMERS 2,650</p>
<p>SMALL SCALE INFRASTRUCTURE DEVELOPMENT</p> <p>We partnered with grassroot level local authorities and other stakeholders to improve public services and infrastructure. During the year, the Company also supported communities affected by lockdown through the distribution of rations and essential items.</p>	<p>SMALL SCALE PROJECTS 130+</p>	<p>RATION PACKS DISTRIBUTED 15,000+</p>	<p>EMPLOYEE VOLUNTEERISM</p> <p>Our employees contributed one day's salary, which was matched by the Company to support frontline healthcare workers with PPE and packs of dry rations. During the year, the Company also began work on the construction of a bus stand in Kotahena.</p> <p>PACKS OF ESSENTIAL ITEMS AND PPE 550</p>

PILLAR	RELEVANT SDG AND TARGETS	KPI			
 <p>GREAT PLACE TO WORK</p>	 	<p>FEMALE REPRESENTATION 15%</p>	<p>TOTAL EMPLOYEE PAYMENTS Rs. 1.19 BILLION</p>	<p>INVESTMENT IN TRAINING Rs. 13 MILLION</p>	
 <p>SUSTAINABLE FARMER LIVELIHOODS</p>		<p>BUY-BACK GUARANTEE FROM CONTRACTED TOBACCO FARMERS 100%</p>	<p>PAYMENTS TO CONTRACTED FARMERS Rs. 1.66 BILLION</p>		
 <p>CORPORATE SOCIAL INVESTMENTS</p>	  	<p>SADP BENEFICIARIES 80,000</p>	<p>Provided food security to over 80,000 individuals in more than 20,000 families</p>	<p>Provision of 70,000 litres of clean drinking water a day to 21,000+ people via 7 RO plants situated in high chronic kidney disease prone areas (from 2019-2020)</p>	<p>35+ irrigation projects providing access to water for irrigation</p>



Governance

“Good corporate governance is key to our sustainable, long-term growth. We are committed to achieving our business objectives in a transparent and accountable way, and sustaining a culture of integrity in everything we do. Our actions and behaviour impact all areas of our business, which is why corporate governance is such an important focus for us.”



100% DELIVERY WITH INTEGRITY

Achieve 100% compliance to SoBC, IMP, Youth Access Prevention guidelines and comply with all relevant statutory and voluntary guidelines on Board governance.

100% REGULATORY COMPLIANCE

Ensure full compliance to all relevant regulations and legislation including the NATA Act, Labour laws, Environmental laws, Consumer protection laws, Tax legislations and related regulations.

KNOWLEDGE SHARING

Propagate best practices in corporate governance among Sri Lankan companies by sharing knowledge and expertise.

ESG GOVERNANCE

The Company's ESG agenda is underpinned by a robust framework of policies, procedures, principles and standards, which are aligned with international best-practices and customised to suit domestic requirements. The Leadership Team holds apex responsibility for the delivery of the Company's ESG agenda while implementation is driven by a cross-functional working group, which works with all relevant functions in achieving specific targets. Progress against ESG targets is reviewed quarterly at the Leadership Team - Governance meeting.

INTEGRITY AND COMPLIANCE

Our organisational culture, relations with internal and external stakeholders and overall corporate behaviour is founded on several key internal instruments set out by BAT. Compliance to these policies, procedures and standards are mandatory for all our employees, and regular training and awareness sessions are conducted to ensure that the policies are clearly understood and actioned.

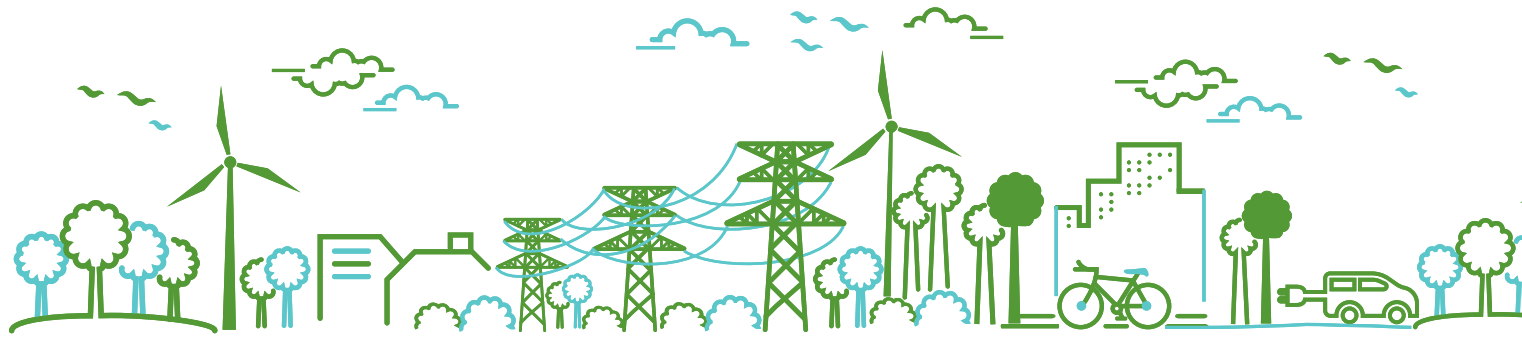
Standards of Business Conduct	Core policy that clearly sets out the high standards of integrity that is expected from all our employees and covers topics such as anti-bribery and corruption, gifts and entertainment, political contributions, tax evasion, human rights and the SoBC assurance procedure among others. All employees formally confirm every year that they have complied with the SoBC through an annual sign-off.
Statement of Business Principles	Our core beliefs and values.
Supplier Code of Conduct	Complements the SoBC by defining the minimum standards we expect our suppliers to adhere to.
Anti-Bribery and Corruption Policy	Ensures that all third parties and non-company personnel engaged by CTC comply with stringent anti-bribery and corruption standards while carrying out work on behalf of the Company.
International Marketing Principles	Offers detailed guidance on numerous aspects of tobacco product marketing, from use of print & electronic media, packaging, sponsorship and promotional events to Youth Access Prevention.

Speak-Up Channel: The Speak-Up channel allows employees and third parties working with us to raise concerns or grievances regarding non-compliance to SoBC. The channel is independently managed and accessible via a designated hotline, an online portal, or one can simply speak to a designated officer, Line Manager, or HR. No employee speaking up about any alleged wrongdoing is victimised in any manner.

Compliance: Compliance to all external and internal regulations, voluntary standards and guidelines are ensured through a dedicated Compliance Manager, who is responsible for implementing BAT's global compliance strategy (refer to page 80 for further information). During the year under review, the Company was fully compliant to all relevant socio-economic, environmental, and other regulations.

KNOWLEDGE SHARING PLATFORM

We are keen to share our best-in-class governance practices with other Listed Sri Lankan corporates and are currently exploring ways in which we can partner the CSE in sharing our insights through a structured programme.



OUR LEADERSHIP



A Step Towards Leadership

68 | *Board of Directors*

72 | *Executive Committee*



Board of Directors



SURESH KUMAR SHAH
Chairman (W.E.F. 16 February 2021)
Independent Non-Executive Director
(W.E.F. 1 February 2021)



ANIL TITTAWELLA
Independent Non-Executive
Director



YUDHISHTRAN KANAGASABAI
Independent Non-Executive Director



NEDAL SALEM
Managing Director & CEO



UMAIR LUQMAN
Finance Director
(W.E.F. 1 November 2020)



USMAN ZAHUR
Non-Executive Director



RUMANA RAHMAN
Non-Executive Director
(W.E.F. 1 February 2021)



STUART KIDD
Non-Executive Director
(W.E.F. 1 February 2021)



WILLIAM PEGEL
Chairman /Non-Executive Director
(resigned W.E.F. 16 February 2021)



AMUN MUSTAFIZ
Finance Director
(resigned W.E.F. 1 November 2020)

Board of Directors

SURESH KUMAR SHAH

Chairman and Independent Non-Executive Director

Current appointments

Mr. Suresh Shah serves as the Chief Executive Officer and a Board Member of Ceylon Beverage Holdings PLC and Lion Brewery (Ceylon) PLC. He also serves as a Director of Carson Cumberbatch PLC, Bukit Darah PLC, and several companies within the Carson Cumberbatch Group.

Past appointments

Prior to joining the Carson's Group, Mr. 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. Mr. Shah has served as a Commissioner of the Securities and Exchange Commission of Sri Lanka and served as a 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 the 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. Through his numerous leadership roles in business chambers, industry forums and associations, Mr. Shah has contributed towards developing policies in creating a more conducive business environment in the Country.

ANIL TITTAWELLA

Independent Non-Executive Director

Independent Non-Executive Director, 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.

Current appointments

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

Past appointments

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 Sri Lanka Swedish Joint Legal Team to formulate the 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 holds a Masters' in Law (Hons) from the University of Waikato, New Zealand. He has 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.

YUDHISHTRAN KANAGASABAI

Independent Non-Executive Director

Independent Non- Executive Director, Chairman of the Audit Committee, Related Party Transactions Review Committee and member of Board Compensation and Remuneration Committee, Corporate Social Investment Steering Committee and Nominations Committee.

Current appointments

He was appointed as an Independent Non-Executive Director and member of the Board Audit Committee of

Cargills Ceylon PLC. He is also a Non-Executive Director and a member of the Board Audit Committee of Cargills Food Company Limited and Cargills Bank Limited. Mr. Kanagasabai is a Non-Executive, Independent Director and Chairman of the Audit Committee of Millennium IT (Pvt) Limited, Non-Executive, Independent Director and member of the Board Audit Committee of Hunters Limited PLC, Non-Executive Director and member of the Board Audit Committee of Lanka Canneries Limited, and a Non-Executive, Independent Director and Chairman of the Board Audit Committee of Eswaran Brothers Exports (Pvt) Limited.

Past appointments

Mr. 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.

NEDAL SALEM

Managing Director & CEO

Managing Director & CEO, Chairman of the Nominations Committee, and member of the Corporate Social Investment Steering Committee.

Current appointments

Serves on the Board of American Chamber of Commerce Sri Lanka (AMCHAM).

Past appointments

Mr. Nedal Salem joined BAT in 1998 as the Country Manager of Jordan. Prior to his appointment as Managing Director & CEO of CTC, he was the Head of Brand Marketing at BAT Indonesia from 2017 to 2019.

Skills and experience

Over the last 20 years, Mr. Salem has built high performing teams through his inspiring and inclusive leadership styles. He has contributed towards the growth of BAT's global drive brands and delivered a strong financial performance in various BAT companies. He holds a Bachelor of Arts (BA) in International Business from The George Washington University.

UMAIR LUQMAN

Finance Director

Member of the Corporate Social Investment Steering Committee since 16 February 2021.

Current appointments

N/A

Past appointments

Mr. Umair Luqman has acted in the capacity of Corporate Finance Controller and Senior Commercial Finance Manager – Operations & Marketing at Pakistan Tobacco Company Ltd. He has also held the role of Head of Internal Audit at BAT (South Asia). Mr. Luqman has held various senior positions in the areas of Statutory, Treasury, Tax, Planning and Reporting at Pakistan Tobacco Company Ltd.

Skills and experience

Mr. Luqman joined Pakistan Tobacco Company Ltd in 2009 and has multi-faceted experience in driving high-performing, cross cultural teams to achieve strategic aspirations. He has worked proactively in building robust control environments and has driven initiatives in strengthening corporate governance practices. Mr. Luqman also has experience in the areas of revenue planning, and pricing & excise management and has

shaped key business strategies while developing and nurturing high-performing teams. He holds a degree in BSc. (Hons) Accounting & Finance and an MBA in General Management from the Lahore University of Management Sciences, Pakistan. He is also an Associate Member of the Chartered Institute of Management Accountants (CIMA) of UK.

USMAN ZAHUR

Non-Executive Director

Non-Executive Director, and member of Audit Committee, Related Party Transactions Review Committee and Board Compensation and Remuneration Committee.

Current appointments

He was appointed as Area Director - Asia Pacific Area on 1 March 2021.

Past appointments

Mr. Usman Zahur has served as the Managing Director & CEO of Pakistan Tobacco Company Limited since January 2020. In 2012, Mr. Usman Zahur was appointed as the Head of Marketing in BAT Bangladesh Company Ltd. In 2015, he moved to BAT 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 in 2017.

Skills and experience

Mr. Zahur joined Pakistan Tobacco Company Limited 21 years ago and since then he 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.

RUMANA RAHMAN

Non-Executive Director

Current appointments

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

Past appointments

Ms. Rumana Rahman previously served as the Head of HR at BAT Bangladesh Company Ltd.

Skills and experience

Ms. Rahman has extensive experience in human resource management leading HR in 33 countries of the Group in APME. Her capabilities include talent, developing employer brands, organisational development, HR transformation and change management. She was the first South Asian female and first Bangladeshi to be appointed to the Regional Leadership Team and is the First South Asian female leader of top 120 leaders of Group. She was recognised as the 'Most Inspiring Woman Leader' by Brand Forum in 2016.

STUART KIDD

Non-Executive Director

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

He has over 19 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 of the Australia and New Zealand Institute of Chartered Accountants.



Executive Committee



NEDAL SALEM
Managing Director & CEO



SUDESH PETER
Head of Legal & External Affairs
and Company Secretary



KAVINDA NANAYAKKARA
Head of Marketing



ALEXANDER UGARTE
Head of Operations



UMAIR LUQMAN
Finance Director



ARUNI ABEYSEKERA
Head of Human Resources



GOVERNANCE AND RISK



A Step Towards Trust

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Board Governance

“Strong corporate governance practices are key in driving sustainable and shared growth. At CTC, good corporate governance begins with our Board of Directors and extends to every employee, thereby ensuring that transparency and integrity are vital in all our actions and behaviours.”

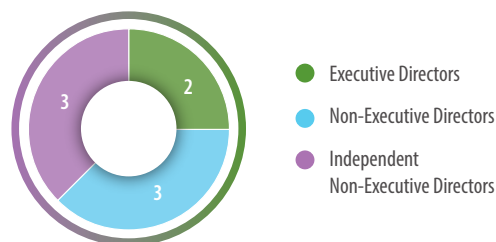
EFFECTIVE LEADERSHIP

As the apex governing body, the Board of Directors serves as the custodian of the Company’s Corporate Governance and is collectively responsible to the shareholders of the Company for its long-term success and the Company’s strategic direction, values and governance. The Board comprises of 8 Directors including the Chairman, of whom 2 are Executive and 6 are Non-Executives of whom 3 are independent. The BAT Group is represented by 5 Directors, 3 of whom hold no executive functions. The Board combines diverse skills and perspectives, bringing together professional and academic expertise both locally and internationally; this serves to enrich discussions leading to more effective decision making. Please refer to page 70 for detailed profiles of Directors.

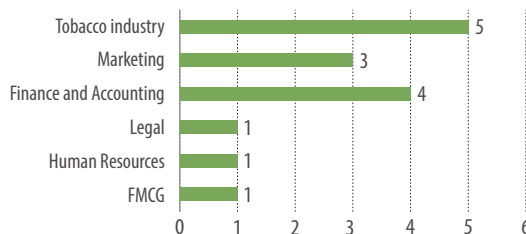
The Board was refreshed recently and key changes made as follows:

- Resignation of Ms. Amun Mustafiz as Finance Director in November 2020
- Appointment of Mr. Umair Luqman as Finance Director in November 2020
- Appointment of 2 Non-Executive Directors (Ms. Rumana Rahman and Mr. Stuart Kidd) and 1 Independent Non-Executive Director (Mr. Suresh Shah) in February 2021
- Appointment of Independent Non-Executive Director (Mr. Suresh Shah) as the Chairman in February 2021 following Mr. William Pegel’s resignation from the Board.

BOARD COMPOSITION



BOARD EXPERTISE



INDUCTION AND TRAINING

Directors undergo a comprehensive induction upon joining the Board, including their duties & responsibilities, and 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, is provided to all newly appointed Directors. On an ongoing basis, Directors also receive briefings designed to update their skills and knowledge, for example, in relation to the business and on legal & regulatory requirements. Directors also participate in relevant external training sessions, such as those organised by the Sri Lanka Institute of Directors.

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

- One-to-one session with the Chairman.
- Sessions with department heads, including presentations covering all functions, which include Marketing, Supply Chain, Finance, Human Resources, and Legal & External Affairs.
- Site-visit to factory and a tobacco cultivation area providing Directors with an opportunity to meet contracted tobacco farmers and barn owners.

In addition, Directors receive regular briefings.

CONFLICTS OF INTEREST

The Directors are cognisant of their duties in dealing with situations in which conflicts of interest could arise and there are multiple channels available for Directors to disclose potential conflicts. Annual declarations of independence or non-independence are obtained from all Non-Executive Directors in accordance with the stipulations of the Listing Rules of the CSE and the guidelines of the Code of Best Practice on Corporate Governance. 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.

BOARD CONTRIBUTION TO VALUE CREATION

DRIVING STRATEGY AND PERFORMANCE

Ensuring that the Company’s strategy is aligned to its business purpose and monitoring the effective implementation of the strategy.

RISK AND CONTROL

Exercising oversight on risk management practices and internal controls.

SHAPING ORGANISATIONAL CULTURE

Setting the right tone and nurturing a culture of integrity and transparency.

SUSTAINABILITY AND STAKEHOLDER ACCOUNTABILITY

Driving the sustainable creation of shared value across our stakeholder universe.



Driving Strategy and Performance

Despite the unprecedented challenges that prevailed during the year, the Company's strategy served it well, attesting to its resilience and relevance in difficult times. During the year, the Board's focus was directed primarily towards implementing measures to ensure the safety of employees and business partners, while driving business continuity.



BOARD MEETINGS

The Board meets on a quarterly basis with special meetings convened if and when the need arises. The Board agenda is set by the Chairman in consultation with the Managing Director & CEO and the Company Secretary.

Other members of the Executive Committee 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. Given the conditions that prevailed during the year, the quarterly meetings were held virtually.

Director	Board	Audit Committee	Board Compensation and Remuneration Committee	Nominations Committee	CSI Steering Committee	Related Party Transactions Committee
Mr. William Pegel (Resigned W.E.F. 16 February 2021)	4/4					
Mr. Nedal Salem	4/4	*4/4		1/1	2/2	
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
Ms. Amun Mustafiz (Resigned W.E.F. 1 November 2020)	2/2	*2/2			2/2	*2/2
Mr. Umair Luqman (Appointed W.E.F. 1 November 2020)	2/2	*2/2			1/2	*2/2
Mr. Suresh Kumar Shah (Appointment W.E.F. 1 February 2021)	1/1					
Mr. Stuart Kidd (Appointment W.E.F. 1 February 2021)	1/1					
Ms. Rumana Rahman (Appointment W.E.F. 1 February 2021)	1/1					

*Invitee

Driving Strategy and Performance

BOARD REMUNERATION

The Board Compensation and Remuneration Committee is responsible for determining the framework and policy in terms of engagement (including remuneration) of the Chairman, Executive Directors, Non-Executive Directors and Senior Management. The Terms of Reference of the Committee comply with the guidelines prescribed by the Code of Best Practice on Corporate Governance, CSE Listing Rules and SEC 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 97 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 122 of this Report.

ACCESS TO INFORMATION

The Company Secretary, under the direction of the Chairman, is responsible for ensuring that the Board and its sub-committees receive high quality, up-to-date information for review, in sufficient time ahead of each meeting. The Company Secretary also ensures efficient information flow within the Board and its sub-committees and between the Non-Executive Directors and Senior Management, while advising the Board on all corporate governance matters. All Directors have access to the advice and services of the Company Secretary.

ENGAGING WITH THE BUSINESS

Directors maintain ongoing engagement with the business, which enable a deeper understanding of its operations, risks, and performance.

- 05 Directors who serve on Board Sub-Committees enabling engagement with management personnel on specific matters.
- Approval of the Company's strategic agenda.
- Regular monitoring of performance reports.

PERFORMANCE AND EVALUATION

As prescribed by the Code of Best Practice on Corporate Governance, the Board evaluates its own performance through an annual self-assessment undertaken by each Director. The assessment covers several topics relating to the contribution of each Director and the collective efficiency, effectiveness, and quality of Board activities. The results of the overall evaluation are discussed with the Chairman and presented to the Board and each of the Committees in respect of its own performance.

RISK AND CONTROL

The Board holds ultimate responsibility for ensuring that the Company's risks are managed effectively through a robust framework of policies, procedures and internal control systems. To this end, the Board determines the risk appetite that the Company is willing to take to achieve its strategic objectives. A discussion on the Company's key risk exposures and mitigation mechanisms are given in the Risk Management Report on page 85 of this Report. A risk register based on a standardised methodology is used to identify, assess, manage and monitor financial and non-financial risks. Risk performance is monitored against defined parameters and reviewed by the Board, through the Audit Committee. This quarterly exercise enables the review of the effectiveness of the Company's risk and internal control systems. (Refer page 89 of this Report for Director's statement on Internal Controls)

ACCOUNTABILITY AND AUDIT

The Audit Committee is entrusted with the 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 Chairman works closely with the Company's Finance Director in discharging his responsibilities. (Refer to the Report of the Audit Committee on page 94 of this Report). The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Corporate Governance and Listing Rules 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 reappointment, 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 Institute of Chartered Accountants of Sri Lanka. The Report also contains a declaration of the Board of Directors on the affairs of the Company (refer page 90), the Statement of Directors' Responsibilities (refer page 93), and Directors' Statement on Internal Controls (refer page 89).

External Auditors and Auditor Independence Policy:

The Company's External Auditors are Messrs. KPMG, and they have not engaged in any services which are in the restricted category as stipulated by the CSE for external auditors. There is a formalised policy in place aimed at safeguarding and supporting the independence and objectivity of the Company's External Auditors. As prescribed in this policy, external auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity. The audit fees paid by the Company to its Auditors are separately classified on page 123 of the Notes to the Financial Statements.

SHAPING ORGANISATIONAL CULTURE

The Company is committed to upholding the highest standards of integrity, business ethics and transparency in all aspects of its operations, and the Board plays an important role in shaping an organisational culture which values these behaviour. BAT's new 'Ethos'- which evolved from our guiding principles is key in leading our organisational culture and behaviours. It is the thread that runs through everything we do and how we do it. It is aimed at creating an organisation that is responsive to change and which embodies a culture of continuous learning.

Meanwhile, the SoBC clearly outlines the standards we expect from our employees and suppliers relating to preventing bribery and corruption, money laundering and political contributions. In creating an open culture, the 'Speak Up' channels encourage employees and/or our business partners to raise any concerns or grievances confidentially and anonymously. This includes the 'Speak up' hotline and 'Speak up' portal, which are managed independently and available 24 hours. Allegations that are raised through the external 'Speak up' channels (www.bat.com/speakup or the 'Speak up' hotline), will be automatically entered into the SoBC portal, 'Conversant', which access is only provided to internal employees.



SUSTAINABILITY AND STAKEHOLDER ACCOUNTABILITY

In 2020, the Company launched a comprehensive ESG Framework, marking a step change in its sustainability aspirations and placing sustainability at the centre of its decision making. A dedicated CSI Steering Committee supports the Board in discharging its sustainability and CSI related duties and is responsible for ensuring;

- The Company's management of CSI and the conduct of business in accordance with the SoBC and making appropriate recommendations to the Board on CSI matters,
- The effectiveness of the Company's strategy in managing significant social, environmental, and governance issues,
- The Company's sustainability plans and activities; and
- The effectiveness of CSI governance.

Please refer to page 25 for further information on the progress of the Company's Sustainability Agenda.

SHAREHOLDER COMMUNICATION

The Company strives to engage with its shareholders in a continuous and open manner. 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. Directors, including the Chairman of the Audit Committee attend the AGM to respond to questions raised by shareholders.

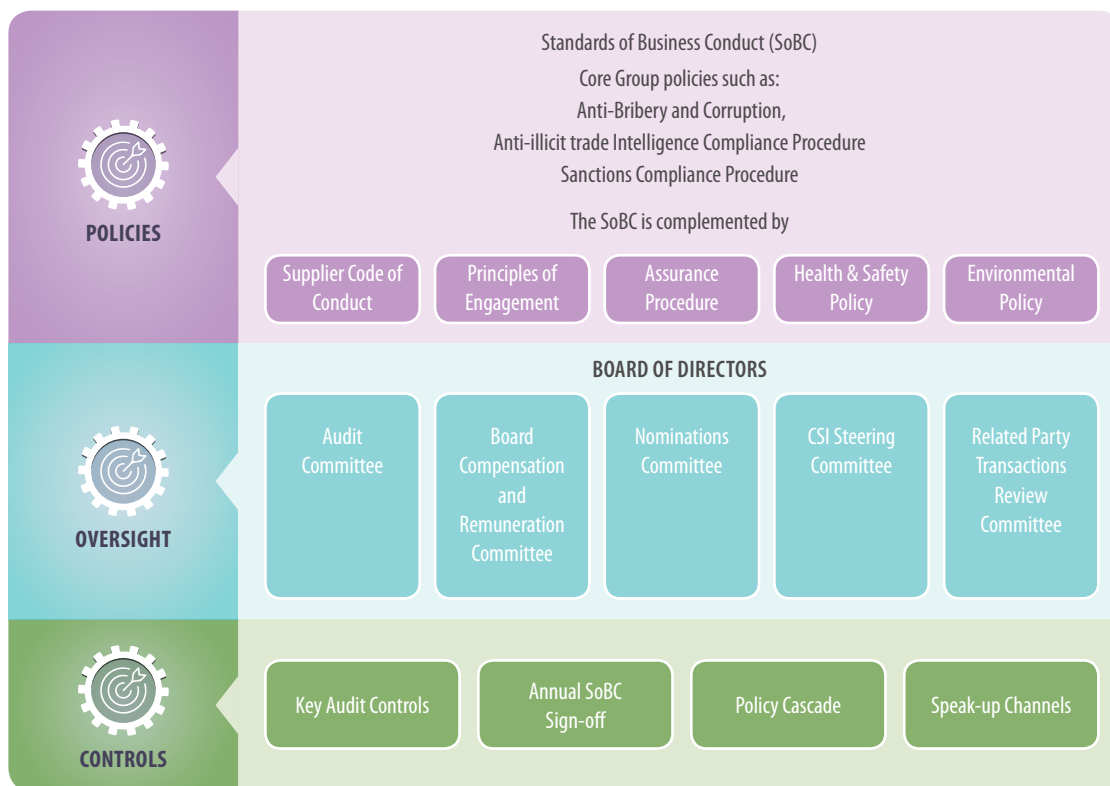
Communication with shareholders is also facilitated through the Company's website and announcements to the CSE. Quarterly performance updates are released to the CSE and published on the Company website. Meanwhile, the Assistant Company Secretary acts as the point of contact for clarifications, suggestions or complaints raised by shareholders.

The Company's engagement with other stakeholder groups are listed on pages 26 to 27 of this Report.



Compliance Overview

CTC benefits from the globally recognised, best-in-class governance practices of its parent entity BAT, which includes robust policies, principles and standards that are aligned with international standards. The Company's corporate governance framework is broadly aligned to that of BAT, but has been further refined to comply with domestic requirements under the Companies Act No. 7 of 2007, the Listing Rules of the CSE and other relevant local laws and regulations. The Company has also adopted the revised Code of Best Practice on Corporate Governance.



STANDARDS OF BUSINESS CONDUCT (SoBC)

The SoBC represent the core global policies that articulate the high standards expected from our Directors, employees and 3rd parties working on behalf of the Company. It requires all staff to act in an ethical and transparent manner with the highest standards of business integrity, comply with all applicable laws and regulations and ensure that our standards are never compromised for results. Critical areas of focus include bribery and corruption, political & charitable contributions, and money laundering. The Audit Committee is responsible for monitoring compliance with the SoBC. Awareness and understanding is promoted through regular policy road-shows, trainings, and communications. During the year, we also launched the SoBC app, allowing easy access and understanding in applying the policy and relevant disclosures.

ANNUAL SoBC SIGN-OFF

COMPLIANCE
100%

All employees are required to formally confirm their compliance to the SoBC every year. During this sign-off they undergo training and assessment and reaffirm their commitment to the SoBC by disclosing if they have any conflicts of interest with the business.

POLICY FRAMEWORK

The Company's policy framework is aligned to that of its parent entity. In 2020, CTC came under the purview of BAT's MESA Area, thereby necessitating the adoption of several Area policies such as Gifts & Entertainment and Assurance Procedure. CTC has also established several local policies such as records management and data privacy and updated other policies including Statement of Delegated Authorities.

Highlights of 2020 include,

- Revamped the Whistleblowing policy through the launch of a new SoBC Assurance Procedure;
- Annual review of all policies and procedures;
- Organisation-wide policy cascades and workshops to raise awareness;
- Roll-out of 3rd party Supply Chain Compliance Procedure; and
- Digitalisation of the SoBC through the launch of a mobile app.

SUPPLY CHAIN COMPLIANCE PROCEDURE (SCCP)

The SCCP sets out the responsibilities and commitment expected from our suppliers and contractors in minimising the risk of illicit trade and tax evasion. The Procedure aims to maintain robust supply chain controls where there are risks that our tobacco leaf and/or products may be smuggled and/or that taxes may be evaded. The Procedure 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.

EXTERNAL AND INTERNAL COMPLIANCE

External compliance: A strong compliance and control environment has been nurtured through comprehensive policies & procedures, structured governance mechanisms and ongoing sessions to raise employee awareness. Compliance to external laws and regulations are ensured through a comprehensive process, which involves the clear identification of regulatory and statutory obligations and continuous monitoring of a checklist of regulatory payments, including excise & sales tax, EPF and ETF contributions. This is reviewed by the Audit Committee while the Company Secretary and the Legal & External Affairs department keeps the Board abreast of any changes in the regulatory and statutory environment, particularly pertaining to the NATA Act, and related regulations.

Internal compliance: BAT's global compliance programme, 'Delivery with Integrity', focuses on strengthening and driving a globally consistent approach to compliance across the BAT Group. With CTC coming under the purview of the MESA Area, internal compliance has been strengthened, thereby ensuring the effective implementation of BAT's global compliance strategy.

A dedicated Compliance Manager reports directly to the MESA Area on compliance to the SoBC and adherence to all internal policies and procedures, thereby improving the overall control environment. Meanwhile, Heads of key functions are required to annually sign-off on the key controls that they are expected to have in place as part of a self-assessment mechanism for internal controls. Any material areas of concern and the action plan to address them are also reported together with compliance of SoBC.



Corporate Governance

Listing Rule No.	Board	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Board Governance on page 76.
7.10.2(a)	Independent Directors	Two or 1/3 of Non-Executive Directors, whichever is higher, should be independent	Compliant	Board Governance on page 76.
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Board Governance on page 76.
7.10.3(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 90.
		b. Names of independent Directors should be disclosed in the Annual Report		Board of Directors on pages 68 to 71.
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the areas of expertise	Compliant	Section of Board of Directors on pages 70 to 71.
7.10.3(d)	Disclosure 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 90.
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing Rules	Compliant	Report of the Board of Directors on page 90.
7.10.5	Remuneration Committee	A Listed Company shall have a Remuneration Committee	Compliant	Report of the Board Compensation and Remuneration Committee on page 97.
7.10.5(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 97.
7.10.5(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 97.
7.10.5(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 97.
		a. Names of Directors comprising the Remuneration Committee		
		b. Statement of remuneration policy	Compliant	Report of the Board Compensation and Remuneration Committee on page 97.
		c. Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant	Note 5 to Financial Statements on page 122.
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of the Audit Committee on pages 94 to 95.

Listing Rule No.	Board	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(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 94 to 95.
		b. The Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	Report of the Audit Committee on pages 94 to 95.
		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 94 to 95.
7.10.6(b)	Audit Committee Functions	Overseeing of the,	Compliant	Report of the Audit Committee on pages 94 to 95.
		(i) Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with the Sri Lanka Accounting Standards.		
		(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 94 to 95.
		(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 94 to 95.
		(iv) Assessment of the independence and performance of the External Auditors.	Compliant	Report of the Audit Committee on pages 94 to 95.
	(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 94 to 95.	
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Report of the Audit Committee on pages 94 to 95.
		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 94 to 95.
		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 94 to 95.
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 Transactions Review Committee on page 96.

Corporate Governance

Listing Rule No.	Board	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
9.2.2	The composition of RPTRC	The Committee should comprise of a combination of Non-Executive Directors and Independent Non- Executive Directors	Compliant	Report of the Related Party Transactions Review Committee on page 96.
		One Independent Non-Executive Director should be appointed as Chairman of the Committee	Compliant	Report of the Related Party Transactions Review Committee on page 96.
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 Transactions Review Committee on page 96.
		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 Transactions Review Committee on page 96.
		The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Report of the Related Party Transactions Review Committee on page 96.
		The number of times the Committee has met during the Financial Year	Compliant	Report of the Related Party Transactions Review Committee on page 96.
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 90.

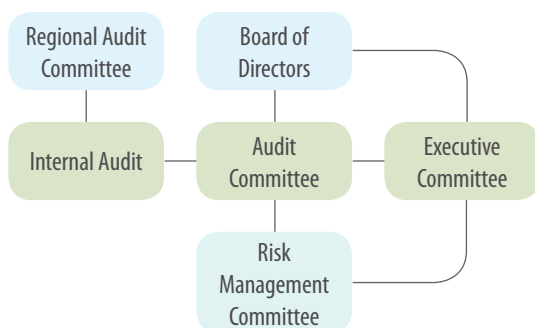


Risk Management

The year under review presented extraordinary challenges given the outbreak of COVID-19 and the resultant economic, human, and social consequences of the pandemic. Against this backdrop, the Company further strengthened its risk management mechanisms, proactively monitoring emerging developments to effectively identify emerging risks that could affect its performance, stability, business model or its supply chain. Given the conditions that prevailed, the Company's risk landscape underwent several changes, reflecting the disruptions to the business and its value chain. Other major risk factors remained broadly unchanged compared to 2019.

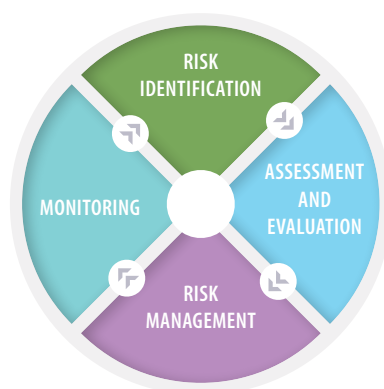
RISK GOVERNANCE

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 at least bi-annually. The RMC, headed by the Company's Finance Director and consisting of Senior Managers representing key functions, reports 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.



The Company's risk management framework is characterised by defined mandates, comprehensive policy frameworks and clear governance structures. As a subsidiary of a Global 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.

MANAGEMENT APPROACH



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 BAT, are used to assess and evaluate risks. All identified risks are assessed at three 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 at least bi-annually by the Board and the Audit Committee.

Board of Directors

Audit Committee

Risk Management Committee

Review

Analysis

IMPACT	Likelihood	LIKELIHOOD		
		Low (1)	Medium (2)	High (3)
High (3)	3	6	9	
Medium (2)	2	4	6	
Low (1)	1	2	3	

IMPACT:	LIKELIHOOD:	RISK STATUS			NEW AND DELETED RISKS
▲ Increased ▼ Decreased ● Same	▶ Increased ◀ Decreased	In Place	On Track	Under Development	
		The current activities in place to manage the risk are sufficient and appropriate	Some current activities to manage the risk are in place, but further activities have been agreed and plans to implement them are on track	Current activities to manage the risk are insufficient and inappropriate OR plans to implement further activities are behind schedule	○ New Risk ● For deletion

Risk Management

Risk Management- Based on the risk scores derived from the risk register, the respective functions formulate strategies to curtail and mitigate 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 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 functional level, by the RMC, Executive Committee and Board level via the Audit Committee. Identified risks, the risk registers, mitigation plans and performance of each identified risk are evaluated at these levels throughout the year.

PRINCIPAL RISKS IN 2020

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, 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. The Company's key risk exposures for 2020 are given below.

Summary of key risks of 2020

Principal risks	Risk assessment compared to last year		Timeline of risk	Risk management mechanisms in place
	Impact	Likelihood		
Disruptions to business stemming from COVID-19	New risk factor	New risk factor	Short to Mid term	✓
Competition from illicit trade	●	●	Mid to Long term	✓
Competition from beedi	●	●	Mid to Long term	✓
Unfavourable and unplanned excise and taxes	●	●	Mid to long term	✓
Impact of price increases on consumer affordability	●	●	Short to Mid term	✓
Difficulties in recruiting/retaining talent	●	●	Long term	✓

Impact / Likelihood

Increased ▲ Decreased ▼ Remained the same ●

Disruptions to business stemming from COVID-19

The outbreak of the pandemic, particularly during the lockdown which followed the first wave of infections, had a considerable impact on multiple aspects of the Company's operations. Challenges stemmed primarily from disruptions to distribution channels and supply chains and the downturn in consumer demand given the moderation in disposable incomes. The health & safety of employees also emerged as a key risk during the year, particularly given that the Company's Head Office and manufacturing plant are in an area which was considered high-risk for COVID-19 infections.

Competition from illicit trade

The illicit market comprises of smuggled products (counterfeit cigarettes and duty-not-paid genuine products), on which applicable taxes are evaded. The increasing price disparity between legal and smuggled cigarettes have fuelled the growth of the illicit market, which is estimated to have expanded by a CAGR of 87% from 2016-2020. It's now accounting for 24% of the Country's total cigarette consumption. In addition to the direct impact on CTC's market share and volumes, the growth of the illicit market leads to a decline in tobacco tax revenue to the Government and defeats its public health objectives as consumers tend to smoke more illicit.

Competition from beedi

Beedi has continued to gain market share, accounting for 67% in 2020 compared to just 20% in 2007. The beedi market continues to be under-regulated and under taxed, with just imported tendu leaves being taxed. In recent years, there has also been a spike in smuggled tendu leaves, 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. During the period from 2015 to 2019 the price of a legal cigarette increased by more than 100%, driven by excise and taxes, which in turn has had significantly impacted the Company's volumes.

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 impacts on consumer disposable incomes in both 2019 and 2020, have further compounded this challenge, which has directly impacted our volumes.

Difficulties in recruiting/retaining talent

The Company could potentially 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 surrounding the tobacco industry.

Assessment of Going Concern

The financial statements of CTC for the year ended 31 December 2020, have been prepared on the basis that the Company is a going concern.

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

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 and 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 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, 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 an appropriate allocation of resource is 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 & Diverse, that 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;
- 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;
- 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 control system is monitored by the Executive Committee, Compliance and BAT Internal Audit. The Internal Control Committee (ICC) is in place with the objective of supporting the Executive Committee in maintaining a sound control environment. Each function is represented in the ICC by a senior manager from the Function and the Committee is chaired by an Executive Committee member on rotation. Scope of the ICC encompasses:

- review and validation of the 'Control Navigator', self-assessment by functions;
- review of functional controls to identify any issues or weaknesses;
- review and recommendation of 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 detailed budgets by Functions. In the business plan, targets are set for key performance indicators that are critical to achieve the plan. Performance is monitored against the targets on a regular basis;

- monthly Sales and Operations Planning (SOP) process to integrate and optimise key operations such as leaf, procurement of direct materials, manufacturing and marketing on a rolling basis over a 2 year horizon;
- a detailed and up to date Statement of Delegated Authorities (SoDA) 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 Board 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.

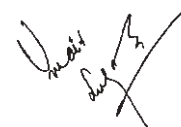
Findings of internal audits and compliance reviews are presented at Audit Committee meetings.

These best practices were complied with during the year 2020.

The Company Secretary ensures that the Company is in compliance with the relevant Rules and requirements of SEC and the CSE.



NEDAL SALEM
Managing Director & CEO



UMAIR LUQMAN
Finance Director

20 April 2021

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 2020.

The information table on the level of compliance to the Listing Rules provided by CSE appearing on pages 82 to 84 and Share Information section on pages 144 to 147 forms 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 and is given in Note 1 to the Financial Statements on page 109.

REVIEW OF PERFORMANCE

A review of performance and future outlook of the Company is available in the Chairman's Review (pages 10 to 13), Managing Director & CEO's Review (pages 14 to 17), Finance Director's Review (pages 100 to 101) and in the section of Value Creation appearing from pages 18 to 21.

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 6 members as at 31 December 2020. Post balance sheet date new appointments were affected to the Board of Directors of the Company increasing the members to 8. Profiles of the Directors are disclosed in pages 70 to 71 of the Annual Report.

Following changes were taken place to the Board of Directors since the last Annual Report.

Name	Change	Date
Ms. Amun Mustafiz (Finance Director)	Resigned	November 2020
Mr. Umair Luqman (Finance Director)	Appointed	November 2020
Mr. Suresh Kumar Shah (Independent Non-Executive Director)	Appointed	February 2021
Ms. Rumana Rahman (Non-Executive Director)	Appointed	February 2021
Mr. Stuart Kidd (Non-Executive Director)	Appointed	February 2021
Mr. William Pegel (Chairman)	Resigned	February 2021
Mr. Suresh Kumar Shah (Independent Non-Executive Director and Chairman)	Appointed	February 2021

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 7.10.3(d).

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

In accordance with the Listing Rules No.7.10.4 of CSE the Directors determined Mr. Yudhishtan Kanagasabai, Mr. Anil Tittawella and Mr. Suresh Kumar Shah, as Independent Directors based on declarations made by them according to Appendix 7A of the Listing Rules of CSE.

RE-ELECTION OF DIRECTORS

In accordance with the Articles of Association of the Company, it was resolved that, Mr. Anil Tittawella, Mr. Yudhishtan Kanagasabai and Mr. Usman Zahur retire from the Board of Directors by rotation at the Annual General Meeting and being eligible, be proposed for re-election.

Mr. Umair Luqman, Mr. Suresh Kumar Shah, Ms. Rumana Rahman and Mr. Stuart Kidd, who were appointed since the last Annual General Meeting will come up for re-election 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.

Related Party Transaction

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 CSE and the Code of Best Practices on Corporate Governance.

The Board of Directors affirms that the related party transactions have occurred on an arms length basis.

DIRECTOR'S SHAREHOLDING

No Director disclosed above has any shareholding in the Company.

RESULTS FOR THE YEAR AND APPROPRIATION

	Units	2020	2019	Growth
Turnover	Rs. million	132,149	141,342	-7%
Profit for the year	Rs. million	15,578	17,259	-10%
No. of shares	Number	187,323,751	187,323,751	-
Earnings per share	Rs.	83.16	92.13	-10%
Net assets per share	Rs.	24.57	24.68	-0.4%
Market price per share	Rs.	1,028.90	1,100.30	-6%
Price earnings ratio		12.37	11.94	4%
Dividends per share	Rs.	83.63	95.77	-13%

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 twenty shareholders are available on pages 144 to 147 under 'Share Information'.

STATED CAPITAL

The stated capital of the Company as at 31 December 2020 amounted to Rs. 1,873 million (2019- 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 2020, comprise of revenue reserves amounting to Rs. 2,729 million. Movements are shown in the Statement of Changes in Equity in the Financial Statements.

DIVIDENDS

Interim dividends of Rs. 13,394 million have been paid and a final dividend of Rs. 2,126 million proposed from the current year's profit of Rs. 15,578 million yielding a dividend per share of Rs. 82.85 with a pay-out ratio of 99.63% for the year ended 31 December 2020.

MOVEMENT OF RETAINED EARNINGS

	Rs.000's
Retained profit as at 1 January 2020	2,749,626
Current year's profit after charging all expenses and providing for all known liabilities	15,578,094
Dividends of Rs. 83.63 per share on the Issued Share Capital of 187,323,751 shares	(15,665,884)
2019 Final dividend - Rs. 12.13 per share paid on 08/07/2020	
First Interim dividend - Rs. 19.00 per share paid on 04/06/2020	
Second Interim dividend - Rs. 15.00 per share paid on 04/09/2020	
Third Interim dividend - Rs. 19.00 per share paid on 09/12/2020	
Fourth Interim dividend - Rs. 18.50 per share paid on 22/01/2021	
Write back of unclaimed dividends	65,777
Re-measurement of defined benefit obligations	1,538
Balance carried forward to 2021	2,729,151

Report of the Board of Directors

PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment for the year are shown in Note 11 to the Financial Statements. The Company capitalised a sum of Rs. 952 million in property, plant and equipment in 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 2020 amounted to Rs. 129 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.

EMPLOYEE SHARE OWNERSHIP PLANS

The Company has no share ownership plan as at 31 December 2020. 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 46 to 47 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 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 157 to 159.

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 142.

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 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 2021 will be convened as a virtual meeting using a digital platform in line with the directions given by the CSE.



NEDAL SALEM
Managing Director & CEO

20 April 2021



UMAIR LUQMAN
Finance Director

Statement of Directors' Responsibilities for Financial Statements

This Statement sets out the responsibility 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 from 103 to 104.

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 2020, the Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year then 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 2020; and
- Financial performance of the Company for the financial year ended 31 December 2020.

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 No 7 of 2007 and the Listing Rules.

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 that Financial Statements presented comply with the requirements of the Companies Act No 7 of 2007.

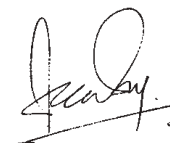
The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and in this regard to give proper consideration to the establishment of appropriate internal control systems, with a view to preventing and detecting fraud and other irregularities.

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 Messrs. 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 reporting 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



NEDAL SALEM
Managing Director & CEO

20 April 2021

Report of the Audit Committee

COMPOSITION

The Board Audit Committee (“the Committee”) appointed by and responsible to the Board of Directors 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 External Auditors. There were no changes to the composition of the Committee during the year. The Committee consisted of 2 Independent Non-Executive Directors and a Director of an overseas BAT Subsidiary, who is independent of executive functions of CTC.

The members of the Board Audit Committee are:

Mr. Yudhishtan Kanagasabai – Chairman

Mr. Anil Tittawella

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 70 to 71 of this Report.

The Company Secretary serves as the Secretary to the Committee.

MEETINGS

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

The attendance of the members at these meetings are given in page 77 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 Committee. The ‘Rules on Corporate Governance under Listing Rules’ 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 of Sri Lanka, 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 audit.

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 on pages from 82 to 84.

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 overseen the work undertaken by the Group’s Internal Audit and External Auditors.

KEY RESPONSIBILITIES OF THE BOARD 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 matters communicated to the Committee by the External Auditors 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 and the Internal Control Statement, prepared by the Management for submission to BAT Global Office.

The Committee has noted the findings from the compliance reviews, their root causes and management responses, and status of implementing remediation, including Control Navigator actions. 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 the Management. The 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 the areas of greatest risk to CTC using a risk - based approach.

Executive Management is responsible for ensuring that recommendations made by the Groups' 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. Gaps, if any, reported by BAT internal audit are addressed and followed up to confirm rectification.

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 2021, 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.



YUDHISHTRAN KANAGASABAI
Chairman

Audit Committee

20 April 2021

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee (the Committee) of CTC was established effective from 1 January 2016 in compliance with the Code of Best Practice on Corporate Governance and Section 09 of the Listing Rules.

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

Mr. Usman Zahur

Brief profiles of the Committee members are given in pages 70 to 71 of this report.

MEETINGS

The Committee held 4 meetings in to the year 2020, 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 77 of this Report.

OBJECTIVE

The objective of the Committee is to exercise and ensure on behalf of the Board, that all Related Party Transactions (RPTs) of Ceylon Tobacco Company PLC are compliant with the mandates of the SEC, Listing Rules and Code of Best Practices.

TERMS OF REFERENCE

The Committee, in discharging its functions ensures that:

- There is compliance with the SEC and Listing Rules and Code of Best Practises;
- 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 related party transactions of CTC and their compliance according to SEC, the Listing Rules and Code of Best Practises. There were 4 non - recurrent new RPTs 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 SEC 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.

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.



YUDHISHTRAN KANAGASABAI
Chairman

Related Party Transactions Review Committee

20 April 2021

Report of the Board Compensation and Remuneration Committee

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 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

Mr. Yudhishtan Kanagasabai

Mr. Usman Zahur

Brief profiles of the Committee members are given in pages 70 to 71 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

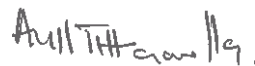
Also, the committee review and approve Remuneration policy for below:

- ◉ 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, Committee reviewed and granted approval for the below topics:

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



ANIL TITTAWELLA
Chairman

Board Compensation and Remuneration Committee

20 April 2021

Report of the Nominations Committee

CTC'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 arises.

COMPOSITION

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

Mr. Nedal Salem – Chairman

Mr. Yudhishtran Kanagasabai

Mr. Anil Tittawella

Brief profiles of the Committee members are given in pages 70 to 71 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

Committee meets only when there is a necessity. During 2020, the Committee did not meet, as there were no Independent Non-Executive Director appointments. However, the Committee met during the first quarter of 2021 to recommend the new Board appointments.



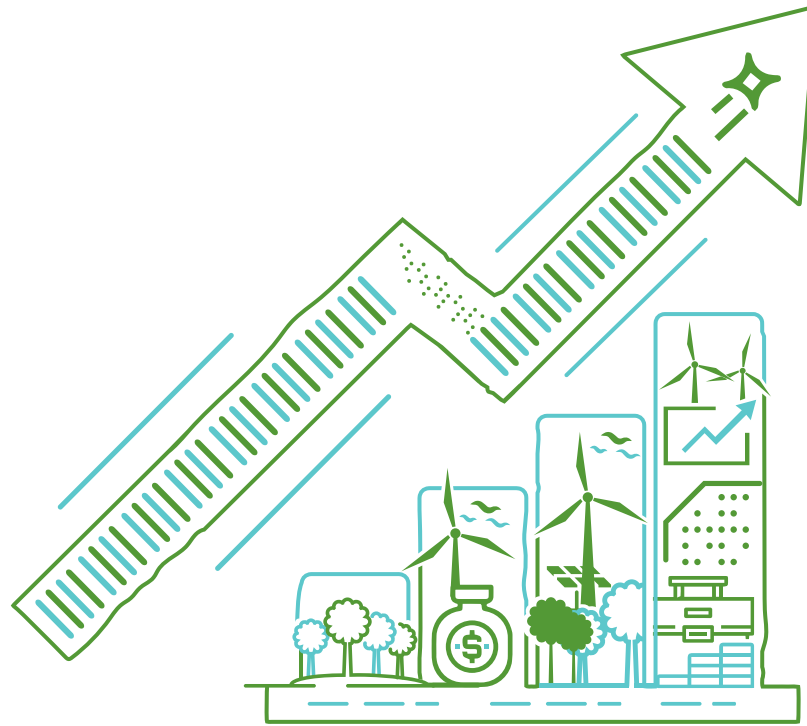
NEDAL SALEM

Chairman

Nominations Committee

20 April 2021

FINANCIAL STATEMENTS



A Step Towards Results

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Finance Director's Review



“The Company pursued concerted efforts to preserve operating margins through driving cost rationalisation, optimising the product mix and increasing distribution efficiency.”

OVERVIEW



Despite the unprecedented challenges stemming from the outbreak of the COVID-19 pandemic, CTC delivered a commendable performance, while maintaining a healthy financial position.

Economic activity as well as consumer and business sentiments were on an improving trajectory at the beginning of 2020, with the Country showing gradual signs of recovery, following the 2019 Easter Sunday terror attacks. However, these gains were completely reversed by the outbreak of the pandemic in March 2020, which led to a sharp downturn in demand, which continued to be affected by the extended lockdown. The situation was further worsened by the fall in disposable income and weaker consumer sentiments. Disruptions to distribution channels led to considerable difficulties in market access, which in turn impacted the Company's sales volumes in the first half of the year.

During this period, CTC operated in strict compliance with Government guidelines and directives to ensure the health & safety of employees, as well as the workforce of all extended value chain partners. The Company swiftly and seamlessly facilitated work-from-home solutions for its office-based employees by leveraging its Information & Digital Technology (IDT) infrastructure, while all other employees carried out limited critical responsibilities, subject to all necessary health & safety precautions.

In 2020, the operating environment for the legitimate tobacco industry remained challenging. Illicit cigarettes smuggled into the Country, as well as under-regulated and low taxed beedi, provided cheaper alternatives to price pressured consumers. The growth in illicit products and beedi continued to pose a significant threat to the revenue growth of the Government, and CTC's viability

in contributing to the economy was further challenged by moderating economic conditions and impacts on consumer affordability.

In spite of these challenges, CTC remained steadfast in its commitment to deliver consistent shareholder returns, and ensured continued support to the Government of Sri Lanka, through much needed tax revenue. Accordingly, the Company sought to optimise its product portfolio, enhance the efficiency of its distribution network, and relentlessly pursued cost efficiencies and productivity improvements, to ensure sustainable value to shareholders. This was evident from strong results in the second half of the year.

REVENUE AND PROFIT FROM OPERATIONS

Prior to the outbreak of the pandemic, the Company was positioned for strong growth in the early months of 2020, recording good volume and profit growth. However, performance was inevitably impacted by the market disruption that followed the outbreak, with considerable impacts on profitability, cash flow and our operational capability. Resultantly, the Company's sales volumes declined by 13%, reflecting the interruptions to the distribution channels and economic conditions. This in turn, resulted in the Company's turnover declining by 6.5%, to Rs. 132.1 billion. Contributions to government revenue also recorded a parallel decrease of 5.4%, to Rs. 100.1 billion. Meanwhile, the Company's revenue recorded a decline of 9.7%, to Rs. 32.1 billion.

In offsetting the decline in revenue, the Company pursued concerted efforts to preserve operating margins through driving cost rationalisation, optimising the product mix and increasing distribution efficiency. As a result, operating expenses declined by 20%, a commendable achievement, given the costs that were incurred to ensure stringent health & safety standards. Accordingly, the Company's operating profit margin improved marginally during the year. Meanwhile, CTC's net finance income declined by 53%, to Rs. 0.76 billion, reflecting the sustained decline in market interest rates, which in turn impacted the Company's investment income.

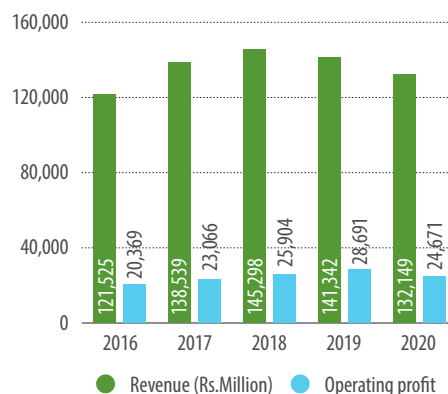
CTC's profit before tax for the year declined by 11%, to Rs. 25.4 billion, while profit after tax amounted to Rs. 15.6 billion, a decrease of 10%. This was commendable, given the market and operating conditions that prevailed in the Country.

	Units	2020	2019	2018	2017	2016
Earnings per share	Rs.	83.16	92.13	90.78	77.87	67.05
Dividend per share*	Rs.	82.85	92.13	90.77	77.80	66.80
Net Assets per share	Rs.	24.57	24.68	28.61	24.39	18.60
Share Price (31st December)	Rs.	1,028.90	1,100.30	1,415.00	1,004.50	806.50
Dividend pay-out	%	99.6	99.9	99.9	99.9	99.6

*includes Interim & proposed

REVENUE AND PROFIT GROWTH

Rs. Million



INVESTMENT FOR GROWTH

Despite the decline in volume, the Company continued to invest in its brands to ensure sustainable long-term returns, establishing a portfolio that addresses changing and dynamic consumer needs. New variants of the 83mm category were introduced, to deliver value to adult consumers through better product propositions. During the year, the Company also invested in enhancing its manufacturing capability to reintroduce the 67mm length category to the market, as an illicit price fighter.

CASH FLOW AND LIQUIDITY

Understandably, the prevalent conditions impacted the Company's operating cash flow. The decline in revenue and increased working capital requirements resulted in a 15% reduction in cash generated from operations, to

Rs. 20.7 billion. The cash flows were closely monitored, and investment position was regularly reviewed, to optimise the interest income while managing all liquidity requirements. Overall, the Company's cash and cash equivalents declined by 42% in the year, although liquidity levels remained strong with a Cash and Cash Equivalent (CCE) balance of Rs. 9.8 billion as at 31 December 2020. CTC remained committed to adopting efficient capital management and resource allocation policies, and did not incur any bad debts arising from trade debtors, which remained fully covered through bank guarantees and a distributor financing scheme.

CREATING VALUE FOR SHAREHOLDERS

Profit before tax decreased by 11%, to Rs. 25.4 billion and reduction in effective tax charge steadied the profit for the year at Rs. 15.6 billion, with 10% reduction in comparison to the previous year. During the year, the Company continued to generate sustainable value to its shareholders delivering Rs. 83.16 in Earnings per share. CTC also maintained its track record as a strong dividend distributor, with 4 interim dividends amounting to Rs. 71.50 per share, and a proposed final dividend of Rs. 11.35 per share, translating to a dividend pay-out ratio of 99.6%.

Additionally, when measured on a 5 year annualised basis, both Dividend per share and Earnings per Share ranked among the highest when compared to the Top 20 Listed Companies in the Country. Meanwhile, CTC's share price closed the year at Rs. 1,028.9 from Rs. 1,100.3 of the previous year.

UMAIR LUQMAN
Finance Director

20 April 2021

Financial Reporting Calendar

First Quarter Results 2020	14 May-20
Second Quarter Results 2020	14 Aug-20
Third Quarter Results 2020	10 Nov-20
Fourth Quarter Results 2020	16 Feb-21
Annual Report 2020	20 Apr-21
90th Annual General Meeting to be held on	25 May-21

Independent Auditor's Report



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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 2020, 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 105 to 142 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 2020, 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. 32.07 Bn for year ended 31 December 2020 (2019: Rs. 35.52 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,

- Identifying and evaluating the design and implementation and operating effectiveness of key 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 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 period for cut-off and evaluate whether there are any significant amount of returns after the year end.

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

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.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Shameel ACA	Ms. C.T.K.N. Perera ACA
A.M.R.P. Alahakoon ACA		
Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA		
Ms. P. M. K. Sumanasekara FCA		

Independent Auditor's Report

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**

20 April 2021

Statement of Profit or Loss and Other Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December	
		2020 Rs. '000	2019 Rs. '000
Turnover	4	132,148,810	141,341,887
Government levies	4	(100,076,289)	(105,818,189)
Revenue		32,072,521	35,523,698
Raw materials used		(2,168,630)	(2,212,800)
Employee benefit expenses	5	(1,365,458)	(1,477,244)
Depreciation expenses	11	(338,747)	(295,716)
Amortisation expenses	12	(1,150)	(479)
Other operating expenses		(3,628,576)	(4,550,084)
Other operating income	6	100,615	70,093
Operating profit		24,670,575	27,057,468
Finance income	8	787,262	1,665,633
Finance cost	8	(24,274)	(32,257)
Profit before income tax		25,433,563	28,690,844
Income tax expenses	9	(9,855,469)	(11,431,899)
Profit for the year		15,578,094	17,258,945
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	13(b)	1,538	(85,266)
Total other comprehensive income for the year		1,538	(85,266)
Total comprehensive income		15,579,632	17,173,679
Earnings per share			
- Basic (Rs.)	10	83.16	92.13
- Diluted (Rs.)	10	83.16	92.13

The Notes on pages 109 to 142 form an integral part of these financial statements.

Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands)	Note	As at 31 December	
		2020 Rs. '000	2019 Rs. '000
ASSETS			
Non-current assets			
Property, plant and equipment	11	4,682,376	3,978,265
Intangible assets	12	1,820	2,970
Employee benefit plan asset	13 (b)	180,904	196,817
Other receivables	15	111,820	116,152
		4,976,920	4,294,204
Current assets			
Inventories	14	3,732,192	2,729,449
Trade and other receivables	15	3,229,974	2,798,976
Assets held for sale	11.4	-	279
Cash and cash equivalents	16	9,782,347	16,845,231
		16,744,513	22,373,935
Total assets		21,721,433	26,668,139
EQUITY AND LIABILITIES			
Equity			
Stated capital	17	1,873,238	1,873,238
Retained earnings		2,729,151	2,749,626
		4,602,389	4,622,864
Non-current liabilities			
Unfunded retirement benefit obligation	13 (a)	163	163
Deferred tax liabilities	18	396,350	596,836
Lease liabilities	21	83,772	119,410
		480,285	716,409
Current liabilities			
Trade and other payables	19	7,827,053	10,680,833
Lease liabilities	21	104,918	99,811
Income tax liabilities		4,966,761	6,474,856
Dividend payable	20 (a)	3,465,489	3,746,475
Unclaimed dividends	20 (b)	274,538	326,891
		16,638,759	21,328,866
Total liabilities		17,119,044	22,045,275
Total equity and liabilities		21,721,433	26,668,139

The Notes on pages 109 to 142 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.



Umair Luqman
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 Board of Directors on 20 April 2021.



Nedal Salem
Managing Director & CEO



Umair Luqman
Finance Director

20 April 2021

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 2019		1,873,238	3,486,172	5,359,410
Profit for the year		-	17,258,945	17,258,945
Other comprehensive income		-	(85,266)	(85,266)
Total comprehensive income for the year		-	17,173,679	17,173,679
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	29,771	29,771
Dividends	20 (c)	-	(17,939,996)	(17,939,996)
Total transactions with shareholders		-	(17,910,225)	(17,910,225)
Balance at 31 December 2019		1,873,238	2,749,626	4,622,864
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 dividends	20 (b)	-	65,777	65,777
Dividends	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

The Notes on pages 109 to 142 form an integral part of these financial statements.

Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December	
		2020 Rs. '000	2019 Rs. '000
Cash flows from operating activities			
Cash generated from operations	24	20,745,028	24,450,124
Interest received	8	787,262	1,665,633
Interest paid	8	(24,274)	(32,257)
Gratuity Paid - Unfunded Scheme		-	(37)
Taxes paid		(11,564,049)	(10,472,323)
Net cash generated from operating activities		9,943,967	15,611,140
Cash flows from investing activities			
Purchases of property, plant and equipment	11	(952,014)	(884,498)
Purchase of intangible assets	12	-	(3,449)
Net cash used in investing activities		(952,014)	(887,947)
Cash flows from financing activities			
Dividends paid	20 (a)	(15,903,852)	(17,932,140)
Unclaimed dividends paid	20 (b)	(29,594)	(3,690)
Payment of lease liabilities		(121,391)	(94,695)
Net cash used in financing activities		(16,054,837)	(18,030,525)
Decrease in cash and cash equivalents		(7,062,884)	(3,307,332)
Movement in cash and cash equivalents			
At beginning of year		16,845,231	20,152,563
Decrease in cash and cash equivalents		(7,062,884)	(3,307,332)
At end of year	16	9,782,347	16,845,231

The Notes on pages 109 to 142 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 is a 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 20 April 2021.

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, 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. The impact from COVID-19 pandemic has been disclosed in Note 26.

2.4 Significant accounting judgements, estimates and assumptions

In preparing these financial statements, 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; and
- ⚙ **Note 18** - Deferred Tax Liabilities: Determination of whether lands should be considered as a capital asset or an investment asset.

Assumption

Information about assumptions and estimation uncertainties at 31 December 2020 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

A number of new standards are effective from 1 January 2020, but they do not have a material effect on the Company's financial statements.

2.7 Segmental reporting

The Company operates in two 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 sales turnover.

2.8 Summary of significant accounting policies

The Company has consistently applied the accounting policies to all periods presented in

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

these financial statements, except if mentioned otherwise in Note 2.6.

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
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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.

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 is 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.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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 marking 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. Dividends are 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.

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 includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

2.8.10 Stated capital

The ordinary shares of the Company are quoted in the Colombo Stock Exchange. 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.

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.

(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 payment

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 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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

- 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.

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 are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations 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)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to LKAS 16).
- Classification of Liabilities as Current or Non-current (Amendments to LKAS 1).

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk

Market risk reflects the 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:

Closing exchange rate	Year ended 31 December	
	2020	2019
US Dollar (USD)	185.25	181.38
Great Britain Pound (GBP)	253.23	240.28
Euro (EUR)	226.66	203.59

Average exchange rate	Year ended 31 December	
	2020	2019
US Dollar (USD)	185.45	178.69
Great Britain Pound (GBP)	238.00	228.14
Euro (EUR)	211.70	200.04

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. 69.2 million impact on profit before tax.

(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.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

(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	
	2020	2019
Trade receivables [Note 15]	2,816,979	2,486,169
Receivables from related parties [Note 25 (iii)]	57,714	34,301
Staff loans [Note 15]	265,447	225,955
Advances to farmers [Note 15]	215,766	192,360
	3,355,906	2,938,785
Provision [Note 15]	(156,835)	(113,385)
Cash and cash equivalents, excluding cash in hand	9,782,025	16,845,025
	12,981,096	19,670,425

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

As at 31 December 2020

Ageing Category	Gross Receivable	% Provision	Total Provision	Net Receivable
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

As at 31 December 2019

Ageing Category	Gross Receivable	% Provision	Total Provision	Net Receivable
Not Due	2,314,225	0.05%	1,157	2,313,068
1 - 30 Days	171,129	0.06%	103	171,026
31 - 60 Days	-	0.07%	-	-
61 - 90 Days	440	0.07%	-	440
91 - 120 Days	375	0.08%	-	375
121 - 180 Days	-	0.08%	-	-
181 - 360 Days	-	0.09%	-	-
>360 Days	-	0.10%	-	-
	2,486,169		1,260	2,484,909

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	
	2020	2019
AAA (lka)	5,555,516	1,686,880
AA+ (lka)	193,680	429,787
AA (lka)	-	9,979
AA-	3,989,595	14,675,804
BBB	43,234	-
BBB+	-	42,575
Total cash at bank and short term bank deposits	9,782,025	16,845,025

(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.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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

At 31 December 2020	Carrying amount	Undiscounted Contractual Cash Flows			
		Total	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables, excluding accrued expenses	4,918,661	4,918,661	4,306,350	612,311	-
Lease liabilities	188,690	210,278	38,686	81,152	90,440

At 31 December 2019	Carrying amount	Undiscounted Contractual Cash Flows			
		Total	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables, excluding accrued expenses	6,914,591	6,914,591	6,463,570	451,021	-
Lease liabilities	219,221	249,275	30,811	88,513	129,951

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 2020, the Company's strategy, which was unchanged from 2019, 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:

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

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 non financial liabilities	-	4,918,661	4,918,661
Lease liabilities	-	188,690	188,690
Total	-	5,107,351	5,107,351

As at 31 December 2019

	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	2,849,548	-	-	2,849,548
Cash and cash equivalents	16,845,231	-	-	16,845,231
Total	19,694,779	-	-	19,694,779

As at 31 December 2019

	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 non financial liabilities	-	6,914,591	6,914,591
Lease liabilities	-	219,221	219,221
Total	-	7,133,812	7,133,812

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

4 REVENUE

	Year ended 31 December	
	2020	2019
Local turnover	132,074,321	141,292,282
Export turnover	74,489	49,605
Total turnover	132,148,810	141,341,887
Government levies		
Excise special provision tax	(90,215,609)	(87,498,842)
Value added tax	(9,843,343)	(18,236,548)
Nation building tax	-	(62,607)
Tobacco tax	(17,337)	(20,192)
Total government levies	(100,076,289)	(105,818,189)
Revenue	32,072,521	35,523,698

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	
	2020	2019
Executive Directors' emoluments	112,207	140,231
Non-executive Directors' remuneration	9,000	7,760
Salaries and wages	1,070,555	1,150,777
Defined contribution plans	77,742	77,646
Provision for voluntary separation scheme [(a) below]	78,503	107,325
Defined benefit obligations [Note 13]	17,451	(6,495)
	1,365,458	1,477,244

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

6 OTHER OPERATING INCOME

	Year ended 31 December	
	2020	2019
Sundry sales / gains	13,418	17,752
Recharge income	29,316	52,341
Gain from disposal of assets held for sale	57,870	-
Derocognition of right of use assets	11	-
	100,615	70,093

7 OPERATING PROFIT

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

	Year ended 31 December	
	2020	2019
Auditors' remuneration		
- Audit fees	3,755	4,028
- Audit related services	2,005	1,890
- Non-audit services	-	-
Legal fees	50,036	118,860
Donations and corporate social activity expenses	129,047	25,793
Technical and advisory fees	570,200	487,351
Fixed assets write-offs	328	6,424
Provision for obsolete inventories (net of write-offs)	(900)	30,924
Provision for doubtful debts (net of write-offs)	43,450	55,499
Repairs and maintenance	216,583	355,849

8 NET FINANCE INCOME

	Year ended 31 December	
	2020	2019
Interest income		
- Interest income from bank deposits	787,262	1,665,633
Interest expense		
- Interest on lease liabilities [Note 21]	(24,274)	(32,257)
Net Finance income	762,988	1,633,376

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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 28% on profits arising from sales and interest income respectively in 2021.

	Year ended 31 December	
	2020	2019
Current tax on profit for the year	10,055,955	11,397,068
Deferred tax [Note 18]	(200,486)	34,831
	9,855,469	11,431,899

	Year ended 31 December			
	%	2020	%	2019
Profit before tax		25,433,563		28,690,844
Tax calculated at tax rate of 40%	40%	10,173,425	40%	11,476,338
Tax effects of:				
Expenses not deductible for tax purposes	4.88%	496,420	3.17%	364,330
Expenses deductible for tax purposes	(4.80%)	(487,836)	(2.12%)	(243,724)
Rate differentials	(1.24%)	(126,055)	(1.74%)	(199,876)
Deferred taxation	(1.97%)	(200,486)	0.30%	34,831
Tax charge	36.87%	9,855,469	39.61%	11,431,899

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	
	2020	2019
Net profit attributable to shareholders (in thousands)	15,578,094	17,258,946
Weighted average number of ordinary shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs.)	83.16	92.13
Diluted earnings per share (Rs.)	83.16	92.13

11 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 2019	96,837	356,928	189,136	27,423	4,638,227	8,643	1,074,637	-	6,391,831
Recognition of right-of-use assets on initial application of SLFRS 16	-	-	-	-	-	-	-	313,916	313,916
Adjusted balance as at 1 January 2019	96,837	356,928	189,136	27,423	4,638,227	8,643	1,074,637	313,916	6,705,747
Transfers from CWIP	-	2,180	36,371	-	717,082	-	(755,633)	-	-
Additions to CWIP	-	-	-	-	-	-	884,498	-	884,498
Write-offs	-	(49)	-	(1,481)	(7,417)	-	-	-	(8,947)
At 31 December 2019	96,837	359,059	225,507	25,942	5,347,892	8,643	1,203,502	313,916	7,581,298
Accumulated depreciation									
At 1 January 2019	-	225,938	110,671	27,306	2,938,145	7,780	-	-	3,309,840
Depreciation	-	5,300	17,208	30	165,877	-	-	107,301	295,716
Write-offs	-	(34)	-	(1,481)	(1,008)	-	-	-	(2,523)
At 31 December 2019	-	231,204	127,879	25,855	3,103,014	7,780	-	107,301	3,603,033
Closing net book value	96,837	127,855	97,628	87	2,244,878	863	1,203,502	206,615	3,978,265
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

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. 2,078,216,901 (2019 - 2,000,293,265).

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 2020.

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	Nildaninna 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. The total sales proceeds received was Rs. 58,149,500.

- 11.5** The Group changed the expected useful life estimate 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

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	
	2020	2019
Cost		
At 1 January	66,874	63,425
Additions	-	3,449
At 31 December	66,874	66,874
Amortisation		
At 1 January	63,904	63,425
Amortisation during the year	1,150	479
At 31 December	65,054	63,904
Net book value	1,820	2,970

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 (2019 - Rs. 0.16 million) is not funded and has been provided for in the books of the Company.

	As at 31 December	
	2020	2019
Unfunded obligations	163	163

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 310 (2019 - 318) 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	
	2020	2019
Defined Benefit Obligation	426,974	403,435
Fair Value of the Plan Asset	(607,878)	(600,252)
Net Defined Benefit (Asset)/Liability	(180,904)	(196,817)

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 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)

	Defined benefit obligation	Fair value of plan asset	Net defined benefit (asset) /liability
Included in profit or loss:			
At 1 January 2019	395,570	(671,158)	(275,588)
Current service cost	25,749	-	25,749
Interest expense / (income)	35,636	(67,880)	(32,244)
	61,385	(67,880)	(6,495)
Included in OCI:			
Remeasurements :			
- Return on plan assets, excluding amounts included in interest expense	-	(43,189)	(43,189)
- Actuarial gain from change in financial assumptions	54,891	-	54,891
- Experience loss	73,564	-	73,564
	128,455	(43,189)	85,266
Other:			
Benefits paid	(181,975)	181,975	-
At 31 December 2019	403,435	(600,252)	(196,817)

The principal assumptions the Company used are as follows:

	As at 31 December	
	2020	2019
Discount rate per annum	7.70%	10.10%
Annual salary increment rate	9.00%	10.25%

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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

	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)

	Impact on defined benefit obligation 2019		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(35,805)	41,642
Annual salary increment rate	1.00%	41,194	(36,075)

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.

14 INVENTORIES

	As at 31 December	
	2020	2019
Raw materials	3,219,177	2,197,116
Work-in-progress	51,105	55,864
Finished goods	264,756	271,147
Consumables	309,993	319,061
Provision for obsolete and slow moving inventories (Note 14.1)	(112,839)	(113,739)
	3,732,192	2,729,449

14.1 Provision for obsolete and slow moving inventories

	As at 31 December	
	2020	2019
At 1 January	113,739	82,815
Charge/(reversal) during the year	(900)	42,993
Write offs during the year	-	(12,069)
At 31 December	112,839	113,739

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

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
Current		
Trade receivables	2,816,979	2,486,169
Receivables from related parties [Note 25 (iii)]	57,714	34,301
Advances to farmers	215,766	192,360
Staff loans	153,627	109,803
Other receivables	142,723	89,728
Provision for impairment of receivables	(156,835)	(113,385)
	3,229,974	2,798,976
Non-current		
Staff loans	111,820	116,152
Total trade and other receivables	3,341,794	2,915,128

- (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	
	2020	2019
Trade receivables	2,816,979	2,486,169
Receivables from related parties	57,714	34,301
Advances to farmers	215,766	192,360
Staff loans	265,447	225,955
Other receivables	142,723	89,728
Provision for impairment of receivables	(156,835)	(113,385)
	3,341,794	2,915,128

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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

	As at 31 December	
	2020	2019
At 1 January	113,385	57,886
Provision for the period	76,717	66,727
Write-offs during the period	(13,282)	(9,426)
Reversals during the period	(19,985)	(1,802)
At 31 December	156,835	113,385

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2020	2019
Cash at bank and in hand	5,755,514	9,832,759
Short term investments	4,026,833	7,012,472
Cash and cash equivalents in the statement of cash flows	9,782,347	16,845,231

17 STATED CAPITAL

	As at 31 December	
	2020	2019
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.

18 DEFERRED TAX LIABILITIES

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	
	2020	2019
At beginning of the year	596,836	562,005
Charge for the year	(200,486)	34,831
At end of the year	396,350	596,836

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 2019	(562,085)	80	-	(562,005)
Recognised in profit or loss	(34,816)	(15)	-	(34,831)
At 31 December 2019	(596,901)	65	-	(596,836)
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)

	2020		2019	
	Temporary Differences	Tax Effect	Temporary Differences	Tax Effect
Deferred Tax Liability On				
Property, Plant and Equipment	(1,681,813)	(672,725)	(1,492,253)	(596,901)
	(1,681,813)	(672,725)	(1,492,253)	(596,901)
Deferred Tax Assets On				
Unfunded defined benefit obligation	163	65	163	65
Provision	690,774	276,310	-	-
	690,938	276,375	163	65
	(990,875)	(396,350)	(1,492,089)	(596,836)

19 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020	2019
Trade payables	701,864	778,742
Payable to related parties [Note 25 (iii)]	715,598	449,247
Accrued expenses	2,908,392	3,766,242
Government levies and other payables	3,501,199	5,686,602
	7,827,053	10,680,833

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

20 DIVIDENDS PAYABLE

(a) The movement of dividend payable over the year is as follows:

	As at 31 December	
	2020	2019
At 1 January	3,746,475	3,813,823
Dividends declared [Note 20 (c)]	15,665,884	17,939,996
Dividends paid	(15,903,852)	(17,932,140)
Transfers to unclaimed dividend [Note 20 (b)]	(43,018)	(75,204)
At 31 December	3,465,489	3,746,475

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

	As at 31 December	
	2020	2019
At 1 January	326,891	285,148
Transfers	43,018	75,204
Payments	(29,594)	(3,690)
Write back	(65,777)	(29,771)
At 31 December	274,538	326,891

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

	2020		2019	
	per share	Rs.	per share	Rs.
Final dividend for prior year	12.13	2,272,237	15.77	2,954,096
First interim dividend	19.00	3,559,151	19.00	3,559,151
Second interim dividend	15.00	2,809,856	20.00	3,746,475
Third interim dividend	19.00	3,559,151	21.00	3,933,799
Fourth interim dividend	18.50	3,465,489	20.00	3,746,475
	83.63	15,665,884	95.77	17,939,996

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

	2020	2019
Balance as of 1 January	206,615	-
Additions to right-of-use assets	91,172	313,916
Derecognition of right-of-use assets	(301)	-
Depreciation charge for the year	(123,665)	(107,301)
Balance as at 31 December	173,821	206,615

(b) Lease liabilities

	2020	2019
Balance as of 1 January	219,221	-
Additions to lease liabilities	91,172	313,916
Derecognition of lease liabilities	(312)	-
Interest expense	24,274	32,257
Payment of lease liabilities	(145,665)	(126,952)
Balance as at 31 December	188,690	219,221

Maturity analysis - contractual undiscounted cash flows

Less than one year	119,838	119,324
One to five years	90,440	129,951
More than five years	-	-
Total undiscounted liabilities as at 31 December	210,278	249,275

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

Current	104,918	99,811
Non-current	83,772	119,410

(c) Amounts recognised in profit or loss

	2020	2019
Depreciation of right-of-use assets	123,665	107,301
Interest on lease liabilities	24,274	32,257
Expense relating to short term leases	17,854	38,329

(d) Amounts recognised in statement of cash flows

	2020	2019
Total cash outflow for leases	145,665	126,952

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

22 CONTINGENT LIABILITIES

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

- (a) Rs. 500 Mn (2019 - Rs. 500 Mn) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing Licence) 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. 58.9 Mn (2019 - Rs. 36.8 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	
	2020	2019
Profit before tax	25,433,563	28,690,844
Adjustments for:		
Depreciation of property, plant and equipment [Note 11]	338,747	295,716
Amortisation of intangible assets [Note 12]	1,150	479
Write offs of property, plant and equipment [Note 11]	328	6,424
Interest expense [Note 8]	24,274	32,257
Interest income [Note 8]	(787,262)	(1,665,633)
Net interest on retirement benefit obligations [Note 13]	17,451	(6,495)
Provision for obsolete inventories and doubtful debts	42,550	86,423
Derocognition of right of use assets	(11)	-
Changes in working capital :		
- Inventories	(1,001,843)	(426,254)
- Trade and Other Receivables	(470,119)	(606,373)
- Trade and Other Payables	(2,853,800)	(1,957,264)
Cash generated from operations	20,745,028	24,450,124

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 2019 audited financial statements, requires additional disclosures in the 2020 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 2019 audited financial statements requires additional disclosures in the 2020 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 a related party that exceeds the specified thresholds.

The following transactions were carried out with related parties:

(i) Sale of goods / services

	Year ended 31 December	
	2020	2019
British American Shared Services (GSD) Limited	19,210	44,298
BAT Marketing (Singapore) Private Limited	8,306	-
British American Tobacco Myanmar Limited	379	720
Pakistan Tobacco Co Ltd	13,575	-
VINA-BAT JV HCMC Branch	-	728
British American Tobacco (Malaysia) Berhad	-	4,134
BAT (Holdings) Limited	485	31,868
BAT AsPac Service Centre Sdn Bhd	4,368	741
BAT Investments LTD	13,584	16,736
British American Tobacco (GLP) Limited.	-	1,890
Benson & Hedges (Overseas) Limited	-	104
BAT Global Travel Retail Limited	6,040	-
CN Creative Ltd	3,571	-
BAT Jordan	5,738	-
	75,256	101,219

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

25 RELATED PARTY TRANSACTIONS (CONTD.)

(ii) Purchase of goods / services

	Year ended 31 December	
	2020	2019
BAT AsPac Service Centre Sdn Bhd	153,382	220,105
BAT Investments Limited	570,200	496,904
Benson & Hedges (Overseas) Limited	7,885	7,543
BAT Asia Pacific Region Limited	530	-
BAT (Holdings) Limited	190,171	351,487
British American Shared Services (GSD) Limited	647,548	639,783
BAT SAA Service (Private) Limited	-	39,828
BAT Pecsí Dohánygyár KFT	-	224
British American Tobacco Kenya Ltd	1	666
British-American Tobacco (Singapore) Pte Ltd	202,964	122,179
PT Bentoel Prima	165,050	2,070
British American Tobacco (Cambodia) Ltd	893	14,128
British American Tobacco Argentina	12	9,616
BAT Nigeria Ltd	-	659
Pakistan Tobacco Company Limited	27,460	210
British American Tobacco Tutun	-	1,231
BAT Romania Investment	-	502
BAT Korea Manufacturing Limited	933	-
BAT Bangladesh Company Limited	2,957	-
British American Tobacco Exports Li	230,838	-
CTBAT International Co. Limited	252	-
British American Tobacco So	2,102	-
BAT ME DMCC	123,526	-
CN Creative Ltd	834	-
BAT Venezuela	1,122	-
	2,328,660	1,907,135

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

	Year ended 31 December	
	2020	2019
Receivable from related parties [Note 15]		
BAT (Holdings) Limited	326	18,219
BAT Investments LTD	12,383	-
BAT Marketing (Singapore) Private Limited	6,617	6,665
British American Tobacco Asia-Pacific Region Ltd	-	1,897
British-American Tobacco (Singapore) Pte Ltd	3,249	2,402
British American Tobacco (GLP) Limited	-	1,879
VINA-BAT JV HCMC Branch	1,569	1,549
BAT AsPac Service Centre Sdn Bhd	4,403	747
Pakistan Tobacco Company Limited	13,732	157
British American Tobacco Myanmar Li	132	786
BAT Global Travel Retail Limited	5,994	-
CN Creative Ltd	3,571	-
BAT Jordan	5,738	-
	57,714	34,301

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

25 RELATED PARTY TRANSACTIONS (CONTD.)

	Year ended 31 December	
	2020	2019
Payable to related parties [Note 19]		
BAT Investments Limited	11,333	17,831
BAT ASPAC Service Centre Sdn Bhd	2,252	18,527
BAT (Holdings) Limited	54,729	274,240
British American Shared Services (GSD) Limited	160,999	34,749
Benson & Hedges (Overseas) Limited	913	4,064
BAT (Germany) GmbH	1,216	1,092
Pakistan Tobacco Company	6,117	-
BAT Korea Manufacturing Limited	952	-
British-American Tobacco (Singapore) Pte Ltd	111,363	55,528
BAT Switzerland S.A.	90	80
British American Tobacco Mexico S.A. de C.V.	11,630	11,035
BAT Pecsí Dohánygyár KFT	925	831
British American Tobacco Kenya Ltd	776	763
British-American Tobacco Polska S.A.	-	264
PT Bentoel Prima	161,587	3,657
BAT SAA Service (Private) Ltd	-	13
British American Tobacco Argentina	-	9,616
British American Tobacco (Cambodia) Ltd	15,715	14,510
BAT Nigeria Ltd	688	674
BAT Romania Investment	576	517
British American Tobacco Tutun	1,398	1,256
BAT Bangladesh Company Limited	2,959	-
British American Tobacco Exports Li	41,200	-
CTBAT International Co. Limited	82	-
British American Tobacco So	2,090	-
BAT ME DMCC	123,526	-
CN Creative Ltd	834	-
BAT Venezuela	1,122	-
	715,598	449,247

Related parties on (i), (ii) and (iii) above, are companies within the same Group (British American Tobacco plc).

(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	
	2020	2019
Salaries and other short-term employee benefits	216,299	272,789
Terminal benefit payments	-	150,556
Share based payments	2,955	15,899

(v) Contribution to post-employment benefits (Ceylon Tobacco Company PLC Group Provident Fund)

	Year ended 31 December	
	2020	2019
Employer contribution	61,115	74,153

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 2020, the fair value of the phantom shares granted was Rs. 12.9 million (2019 - Rs. 9.0 million).

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

26 EVENTS AFTER THE REPORTING PERIOD

No material events have occurred since the end of the reporting date which would require adjustments to, or disclosure in the financial statements except for the following:

(a) Dividends:

The Directors recommend a final dividend of Rs. 11.35 per share for 2020. The final dividend is subject to the approval of the shareholders at the Annual General Meeting to be held on 25 May 2021.

Once approved by the shareholders, the final dividend will be payable on 17 June 2021.

(b) Impact from COVID-19 pandemic

On 11 March 2020, the World Health Organisation declared the coronavirus outbreak a pandemic, and the Sri Lankan Government declared a state of emergency on 18th March 2020. Responding to the potentially serious threat COVID-19 presents to public health, the Sri Lankan Government authorities have taken measures to contain the outbreak.

During this period the primary focus of the Company has been to ensure the continuation of business activities subject to the health & safety of employees as well as the work force of all extended value chain partners. As such CTC has implemented Work from Home Policy for all office-based employees utilising IT capabilities to facilitate seamless remote working conditions. All other employees have on a need-only basis been engaged to carry out limited critical responsibilities subject to taking all necessary health & safety precautions.

Sales were impacted due to product access restrictions faced by adult consumers and retailers as a result of the island wide curfew intermittently imposed to contain the COVID-19 pandemic. The Company implemented robust marketing plans during the second half of the year and constantly reviewed the cost base in order to increase profitability and ensure sustainable value to shareholders.

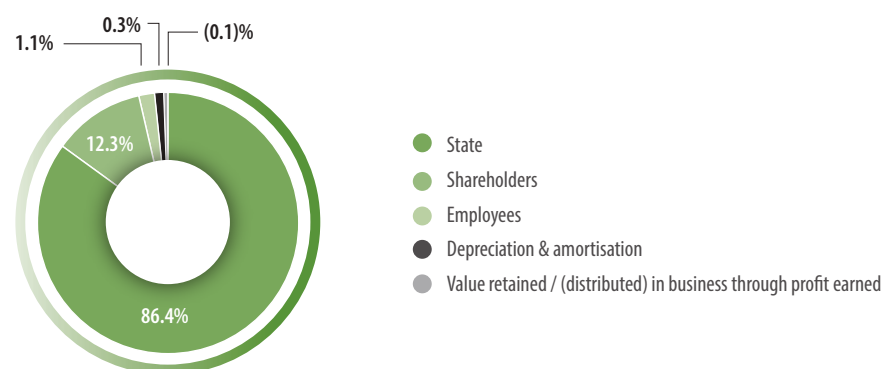
In view of the rapidly evolving dynamic environment created by the COVID-19 pandemic, the Company is cautiously optimistic of the future in anticipation of the gradual revival of the economy and will continue to closely observe the market developments and take all decisions and measures in order to ensure the Company remains a going concern and continues to deliver shareholder value.

Statement of Value Added

(all amounts in Sri Lanka Rupees thousands)

	Year ended 31 December	
	2020	2019
Turnover	132,148,810	141,341,887
Supplied material and services	(5,797,206)	(6,762,884)
Net interest income	762,988	1,633,376
Other operating income	100,615	70,093
	127,215,207	136,282,472
State	109,931,758	117,250,088
Shareholders	15,665,884	17,939,996
Employees	1,365,458	1,477,244
Depreciation & amortisation	339,897	296,195
Value retained / (distributed) in business through profit earned	(87,790)	(681,051)
	127,215,207	136,282,472

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 2020 was 3,909 (3,472 as at 31 December 2019).

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 2020	3,909
Number of Shareholders as at 31 December 2019	3,472

Categorisation of Shareholding

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

2019	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	500,876	0.27	33	9,906	0.01	2,527	510,782	0.28
1001-10,000	788	2,271,047	1.21	39	162,603	0.09	827	2,433,650	1.30
10,001-100,000	72	1,865,421	0.99	23	837,083	0.45	95	2,702,504	1.44
100,001-1,000,000	3	524,730	0.27	15	4,211,756	2.25	18	4,736,486	2.52
Over 1,000,000	-	-	-	5	176,940,329	94.46	5	176,940,329	94.46
Total	3,357	5,162,074	2.74	115	182,161,677	97.26	3,472	187,323,751	100.00

	2020			2019		
	No. of Shares	No. of Shareholders	% of Shares	No. of Shares	No. of Shareholders	% of Shares
Individuals	5,360,264	3,708	2.86	5,191,683	3,280	2.78
Institutions	181,963,487	201	97.14	182,132,068	192	97.22
	187,323,751	3,909	100.00	187,323,751	3,472	100.00

Market Value of Share (Rs.)

	2020	2019
Price Movements (Rs.)		
Highest	1,160.00	1,499.00
Lowest	900.00	1,045.00
Closing Price	1,028.90	1,100.30
Market Capitalisation (Rs. million)	192,737	206,112
No. of share transactions for the year	5,453	2,122
No. of shares traded	2,735,723	2,302,018

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

Dividend Payments

	2020 Rs. per share	2019 Rs. per share
Final dividend for prior year	12.13	15.77
First interim dividend	19.00	19.00
Second interim dividend	15.00	20.00
Third interim dividend	19.00	21.00
Fourth interim dividend	18.50	20.00

Share Information

Shareholding of Directors

	No. of Shares As at 31 December	
	2020	2019
Directors shareholding (including spouses & children)		
Mr. W F Pegel	-	-
Mr. N L Salem	-	-
Ms. A Mustafiz	-	-
Mr. U Luqman	-	-
Mr. Y Kanagasabai	-	-
Mr. K M A T Tittawella	-	-
Mr. U Zahur	-	-
Mr.S K Shah	-	-
Mr. S. Kidd	-	-
Ms.R.Rahman	-	-
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors shareholding (including spouses & children)	-	-
Public Holding	29,732,820	29,732,820
	187,323,751	187,323,751

Public Shareholding

	No. of Shares As at 31 December	
	2020	2019
Public Holding as a % of Issued Share Capital	15.87%	15.87%
Number of shareholders holding the Public Holding	3,908	3,471
Market Capitalisation of Public Holding (Rs. million)	30,592	32,751

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.

20 Largest Shareholders

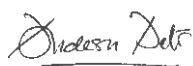
	31 December 2020		31 December 2019	
	No. of Shares	%	No. of Shares	%
1 British American Tobacco International Holdings BV	157,590,931	84.13	157,590,931	84.13
2 Philip Morris Brand SARL	15,585,910	8.32	15,585,910	8.32
3 CB NY S/A Allan Gray Frontier Markets Equity Fund Limited	2,167,374	1.16	1,931,653	0.57
4 Pershing LLC S/A Averbach Grauson & Co.	1,605,009	0.86	1,605,009	0.86
5 Northen Trust Company S/A - Fundsmith Emerging Equities Trust PLC	1,092,645	0.58	1,092,645	0.58
6 SSBT-AL MEHWAR COMMERCIAL INVESTMENTS L.L.C	698,258	0.38	698,258	0.26
7 RBC Investor Services Bank-COELI SICAV1 - Frontier Markets Fund	398,735	0.21	478,735	0.42
8 J.B.Cocoshell (Pvt) Ltd	354,513	0.19	248,624	0.13
9 Mrs. Jasbinderjit Kaur Piara Singh	306,802	0.16	306,802	0.17
10 BBH-Matthews Emergine Asia Fund	214,321	0.11	245,624	0.19
11 Miss Neesha Harnam	211,030	0.11	211,030	0.12
12 SSBT-Frank Russel Trust Company Comingled Benefit Fund Trust GNA	200,124	0.11	200,124	0.11
13 Deutsche Bank AG Singapore A/C 01	175,600	0.09	175,600	0.09
14 Harnam Holdings SDN BHD	150,000	0.08	150,000	0.08
15 Bank of Ceylon No 1 Account	143,175	0.08	143,175	0.08
16 Deutsche Bank AG AS Trustee For JB vantage Value Equity Fund	134,831	0.07	134,831	0.07
17 BNYM RE- GHI Holdings Mauritius	129,687	0.07	129,687	0.07
18 Malship Ceylon Ltd	123,427	0.07	123,272	0.07
19 Mr. Ratnayake Susantha Chaminda	100,000	0.05	-	-
20 Mr. Jayawardena Sanjeeva Praneeth	98,247	0.05	-	-
SSBT-BMO Investments 11 (Ireland) Public Limited Company	-	-	710,489	0.38
HSBC INTL NOM Ltd - SSBT-BMO-LGM Frontier Markets Equity Fund	-	-	197,692	0.11
BNYM RE- GHI Holdings Mauritius	-	-	129,687	0.07
Mellon Bank N.A-Eaton Vance Trust Co.Collective Inv.	-	-	126,600	0.07
Sub Totals	181,480,619	96.88	182,216,378	97.27
Others	5,843,132	3.12	5,107,373	2.73
Total Shares	187,323,751	100.00	187,323,751	100.00

Notice of Meeting

NOTICE IS HEREBY given that the 90th Annual General Meeting 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 Tuesday, 25 May 2021 at 10.00 am 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 2020 and the Report of the Auditors thereon.
- (ii) To declare a Final Dividend for 2020.
- (iii) To re-elect the following Directors.
 - To re-elect as Director, Mr. Anil Tittawella, who retires by rotation in terms of the Articles of Association of the Company.
 - To re-elect as Director, Mr. Yudhistran Kanagasabai, who retires by rotation in terms of the Articles of Association of the Company.
 - To re-elect as Director, Mr. Usman Zahur, who retires by rotation in terms of the Articles of Association of the Company.
 - To re-elect as Director, Mr. Umair Luqman, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
 - To re-elect as Director, Mr. Suresh Kumar Shah, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
 - To re-elect as Director, Ms. Rumana Rahman, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
 - To re-elect as Director, Mr. Stuart Kidd, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
- (iv) To authorise the Directors to determine and make donations.
- (v) 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

5 May 2021

AGM 2021

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 have decided that the Company's Annual General Meeting (AGM) for 2021 will be convened as a virtual meeting using a digital platform. This is in line with the directions given by the Colombo Stock Exchange and noted by the Registrar of Companies in accordance with which the last AGM was successfully held.

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 no later than 5 pm on Monday 17 May 2021 (Deadline):

- Shareholder's Full Name,
- Shareholder's NIC / Passport number,
- Shareholder's CDS number, if any,
- Shareholder's phone number (preferably mobile number registered in the name of the shareholder); and
- 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 CTCAGM2021@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 CTCAGM2021@bat.com by 5 pm on Monday, 17 May 2021, 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 suggestion 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 Kumar Shah	whom failing
Mr. Anil Tittawella	whom failing
Mr. Yudhishtran Kanagasabai	whom failing
Mr. Nedal Salem	whom failing
Mr. Umair Luqman	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 am on Tuesday, 25 May 2021 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

I / We, the undersigned, hereby direct my / our Proxy to vote for me / us and on my / our behalf on the specified Resolutions as indicated by an 'X' in the appropriate spaces.

	Yes	No
(i) To receive and adopt the Report of the Board of Directors and the Financial Statements for the year ended 31 December 2020.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend for 2020.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect as Director, Mr. Anil Tittawella, 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, Mr. Yudhishtran Kanagasabai, who retires by rotation in terms of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect as Director, Mr. Usman Zahur, who retires by rotation in terms of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect as Director, Mr. Umair Luqman, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To re-elect as Director, Mr. Suresh Kumar Shah, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To re-elect as Director, Ms. Rumana Rahman, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(ix) To re-elect as Director, Mr. Stuart Kidd, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(x) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(xi) 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 One.

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, Colombo15, Sri Lanka or email: CTCAGM2021@bat.com, by 5 pm on Monday, 17 May 2021
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

Appendix A: Material topics mapping to GRI disclosures

Material topics and why it matters to us	Relevant GRI Standard	Topic boundary
<p>Our brands</p> <p>Our portfolio of brands and the value it offers to customers is key to preserving our competitive edge and ensuring commercial sustainability.</p>		Relates to the Company's operations
<p>Stakeholder engagement</p> <p>Listening to our stakeholders allows us to understand their legitimate concerns and respond in a timely and suitable manner.</p>		Company's internal and external stakeholders & Retail
<p>Health & Safety</p> <p>Safety risks gained centre stage in 2020 with the outbreak of the COVID-19 pandemic; that apart, it is a key risk in our manufacturing operations and across our supply chain.</p>	GRI 403: Occupational health & safety	Relates primarily to our employees
<p>Sustainable livelihoods</p> <p>Ensuring sustainable livelihoods for our farmers allows us to secure our supply chain while driving our social sustainability aspirations.</p>	GRI 201: Indirect economic impacts GRI 413: Local communities	Boundary extends to tobacco farmers and communities in which we operate & Retail
<p>Preserving human rights</p> <p>We are exposed to the risk of human rights issues across our supply chain.</p>	GRI 408: Child labour GRI 409: Forced or compulsory labour	Boundary extends across our supply chain and includes tobacco farmers and other suppliers
<p>Value infusion to economy</p> <p>Our win-win-win approach to value creation centres on contributing to the Country's economic growth while driving shareholder value.</p>	GRI 201: Economic Performance GRI 202: Market presence GRI 204: Procurement practices	Boundary extends to external stakeholders including tobacco farmers, suppliers, and other communities
<p>Product responsibility</p> <p>In line with BAT's long-term aspirations, we are committed to reducing the health impacts of our business by offering a wider choice to consumers.</p>	GRI 417: Marketing and labelling	Relates to the Company's products
<p>Climate change</p> <p>Climate related issues present significant risks for our operations and supply chains</p>	GRI 302: Energy GRI 305: Emissions	Relates to the emissions generated from our procurement, manufacturing, and other operations
<p>Water and waste</p> <p>We are committed to responsibly managing our environmental footprint, which in turn will ensure access to resources while minimising adverse impacts.</p>	GRI 303: Water GRI 306: Effluents and waste	Relates to the Company's operations
<p>Sustainable agriculture</p> <p>Given that our primarily raw material is an agricultural product, driving sustainable agriculture practices is key to ensuring security of supply while fulfilling our environmental responsibility.</p>	GRI 301: Materials GRI 308: Supplier environmental assessment	Boundary extends to our suppliers
<p>Risk management</p> <p>Effectively managing our financial, social, and environmental risks are critical in ensuring commercial sustainability and maintaining our social license to operate.</p>		Internal and external risks

Appendices

Material topics and why it matters to us	Relevant GRI Standard	Topic boundary
<p>Ethics and business conduct</p> <p>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.</p>		Refers to the Company's operations and dealings with third parties
<p>Circular economy</p> <p>We believe adopting the principles of circular economy provides opportunities in reducing costs, driving innovation, and offering better value to customers.</p>		Relates to the Company's operations
<p>People and Culture</p> <p>The CTC team is a critical element of our success and offering them a rewarding and dynamic work environment is a strategic priority.</p>	GRI 401: Employment GRI 402: Labour management relations GRI 404: Training and education GRI 405: Diversity and equal opportunity	Relates to the Company's operations
<p>Distribution network</p> <p>Our distribution network represents the vital link between the Company and end-consumers of our products.</p>		Relates to the Company's operations and distribution network
<p>Manufacturing operations</p> <p>As a manufacturing organisation, optimising our manufacturing footprint, and capacity and adopting sustainable manufacturing methods are all key to continued business success.</p>		Relates to the Company's operations
<p>Corporate behaviour</p> <p>As an organisation operating in a controversial industry, maintaining ongoing engagement with our stakeholders, and adopting responsible business practices are critical to our continued success.</p>	GRI 205: Anti-corruption	Relates to the Company's operations and dealings with third parties
<p>Compliance</p> <p>Maintaining 100% compliance to all relevant regulations is vital in managing our risks and preserving our reputation.</p>	GRI 307: Environmental compliance GRI 419: Socioeconomic compliance	Relates to the Company's operations



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 are therefore committed to:

- 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
- 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:

- Work with internal and external suppliers to mitigate environmental impacts of producing the tobacco we source.
- Incorporate biodiversity protection and conservation into our recommended practices.
- Align 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:

- Set absolute targets of reduction in emissions from our manufacturing sites.
- Identify initiatives and projects to deliver these sustainable reductions and review the business cases for investment in these initiatives against reduction targets.
- Focus 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.

Nedal Salem

Managing Director & CEO
Ceylon Tobacco Company PLC
20 April 2021

Appendices



SUSTAINABLE TOBACCO PROGRAMME (STP) POLICY

Ceylon Tobacco Company PLC hereby dedicates to assure focus on the following areas for the Sustainable Tobacco Programme (STP).

- Conduct all business activities of the Company 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 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 them to be transmitted to the wider farming community by setting examples.
- Educate on Green Tobacco Sickness (GTS) to ensure stakeholder health & 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 among relevant stakeholders aligning to local and international guidelines.
- Maintain a continuous productive dialogue with stakeholders to capture the opinions and be responsible 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 'Nedal Salem', is positioned above the printed name.

Nedal Salem

Managing Director & CEO
Ceylon Tobacco Company PLC
20 April 2021



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.

A handwritten signature in black ink, appearing to read 'Nedal Salem', written over a horizontal line.

Nedal Salem
Managing Director & CEO
Ceylon Tobacco Company PLC
20 April 2021

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. We are therefore committed to:

- 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 continual 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
- 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 health & safety of themselves and others while at work and co-operate fully with the Company in all health & safety related matters.

A handwritten signature in black ink, appearing to read 'Nedal Salem', is positioned above the printed name.

Nedal Salem

Managing Director & CEO
Ceylon Tobacco Company PLC

20 April 2021

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

Commercial Bank of Ceylon PLC

Citibank NA

Deutsche Bank AG

HSBC

People's Bank

Standard Chartered Bank

HOLDING COMPANY

British American Tobacco plc through
British American Tobacco International Holdings BV

Designed & produced by

emagewise

Printed by Printel (Pvt) Ltd

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