

# Most preferred

Ceylon Tobacco Company PLC. A Company preferred by shareholders, consumers, employees and partner communities for over a century.

Read this report to find out why.



**CEYLON TOBACCO  
COMPANY**

A member of the British American Tobacco Group

Annual Report 2013

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## Our Vision

World's best at satisfying consumer moments in tobacco and beyond.

## Our Guiding Principles

### Enterprising Spirit

We have confidence to passionately pursue growth and new opportunities whilst accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.

### Freedom Through Responsibility

We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.

### Open Minded

We are forward looking and anticipate consumer needs, winning with innovative, high quality products. We listen to and genuinely consider other perspectives and changing social expectations. We are open to new ways of doing things.

### Strength From Diversity

We respect and celebrate each other's differences and enjoy working together. We harness diversity - of our people, cultures, viewpoints, brands, markets and ideas - to strengthen our business. We value what makes each of us unique.

# Most preferred

There are countless attributes that propel corporates to be successful ones. A few of these corporates transcend to the highest echelons of being distinctively exceptional. Establishing and retaining an exceptional reputation as one of the finest blue-chip companies in Sri Lanka, is an accomplishment that we have worked towards passionately.

During this year we have attained the title of being the Most Valuable Company listed on the Sri Lankan Bourse. This acclaim is the culmination of a long history of the company being a local benchmark of international standards - guaranteeing that whatever we do, wherever we go, we will make the right choices and strive to benefit the communities we work with. Creating and maintaining mutually beneficial and economically sustainable long-term relationships is how we ensure the strength and success of our Company.

In this report we look at many questions of materiality and strive to answer them clearly, concisely and honestly. It elaborates why Ceylon Tobacco Company PLC has been one that is preferred by shareholders, consumers, employees and partner communities for over a century.



# Financial Highlights

	2013 Rs. Mn.	2012 Rs. Mn.
Gross Turnover (Including VAT)	89,455	82,770
Government Levies	67,837	63,569
Net Revenue	21,618	19,202
Profit before Tax	15,243	13,701
Profit after Tax	9,140	8,175
Net Assets	4,315	3,795
Interim dividends (including one special dividend in 2012)	7,530	7,240
Proposed final dividends (subject to approval at the Annual General Meeting)	1,602	1,218
Total Value Added	84,391	78,478
Capital Investments	288	276
Market Capitalisation	221,791	155,479
Value Added per Employees	294	282
Number of permanent employees	287	278
Dividend Pay out Ratio	99.91%	99.91%
<b>Per Share (Rs.)</b>		
Market Value	1,184.00	830.00
Net Assets	23.04	20.26
Earnings	48.80	43.64
Dividends (Interim and proposed Final Dividend)	48.75	43.60

Who  
we are.  
What  
we do.

*The Most Valuable  
Company*

With a market capitalisation of

**Rs. 221.8 billion**

Ceylon Tobacco Company PLC  
was the Most Valuable Company on  
the Colombo Stock Exchange as at the  
reporting date.

*Contributing to  
Government Revenue*  
**Rs. 76.5 billion**

contributed through excise, taxes and levies.

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*Earnings  
per Share*

**Rs. 48.80**

An approximate growth of 12% over 2012.

# *Generating Employment Opportunities*

## 60,000 +

persons employed island wide, in tobacco farming, manufacturing and retail sectors.

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# *Partnering Rural Development*

## Rs. 5.0 billion

infused to the rural economy through farming and retailing.

## *A Talent Hub*

# 20%

of CTC's management staff work overseas in key positions throughout the Global BAT network.



## *Focused on Employee Development*

# 50% +

of CTC employees received training for the year under review.

## *Empowering Communities*

66,400 +

beneficiaries from 16,364 families empowered  
through CTC's CSR programme - SADP.



## *Committed to Employee Safety*

0 LWC

(Lost Workday Cases)  
due to accidents in the past 14 years in our  
primary and secondary manufacturing facilities.



## An interview with the Chairman



**Q:** How would you rate Ceylon Tobacco Company's financial performance against Sri Lanka's economic indices?

**A:** Exigencies in key markets had a profound impact on the global economy as it registered moderate growth of around 2.5% in 2013. High public debt in most advanced economies remains largely unresolved and still poses a risk of triggering new crises. Whilst many affected markets are growing again, the recent actions of the US Federal Reserve, though expected, have led to uncertainty especially in emerging markets. Notwithstanding the above, the Sri Lankan economy grew at over 7% in 2013, once again demonstrating its resilience against external factors.

For Ceylon Tobacco Company PLC, 2013 was a year fraught with challenges, but once again our inimitable spirit and penchant for excellence delivered a turnover of Rs. 89.4 billion, a growth of Rs. 6.7 billion over 2012. These figures were achieved despite a decline in our volumes of over 6%, a result of weaker consumer sentiment due to pricing and the twin shocks of drought and flooding in various parts of the island continuing from late 2012. The Company has delivered a Profit After Tax of Rs. 9.1 billion which allowed us to propose a total dividend distribution of Rs. 48.75

*We will continue to support the growth of the Sri Lankan economy over decades to come, as we have done in over a century.*

per share for the year to our valued shareholders. I am extremely pleased with the performance of your Company in what was a difficult year where we have continued to grow our bottom line. Well run companies continue to focus on cost and sound management practices and that is exactly what CTC has demonstrated.

**Q:** How has CTC contributed to the government and the advancement of the local economy?

**A:** CTC is the single largest contributor to government revenue. During the year under review we grew our contribution to the government by a further Rs. 5.3 billion, to Rs. 76.5 billion. We will continue to support the growth of the Sri Lankan economy over decades to come, as we have done in over a century.

**Q:** What are the key awards and recognition CTC has gained over the past year?

**A:** This was yet another year where CTC strengthened its position as one of Sri Lanka's foremost corporates. Your Company's commitment to good governance stemming from its affiliation to British American Tobacco (BAT) is something that continues to impress me.

In 2013, CTC was recognised by the Ceylon Chamber of Commerce as one of the 10 Best Corporate Citizens in Sri Lanka and in addition to that, was adjudged the Best Corporate for "Employee Relations", "Financial Performance" and "Project for Environmental Value Addition". Your Company achieved these milestones against some of the best corporates in the country and is ample testimony to the incisive management that pervades every aspect of our business. We have also improved our position in the prestigious Business Today Top 20, moving up from 7th position in 2012 to 4th in 2013. Business best practice and governance have been the cornerstones of CTC's success over the decades and this also translates to our contribution to the wider BAT Group and

## An interview with the Chairman contd.

that of the South Asia Area. During the year under review, BAT's South Asian cluster comprising of Sri Lanka, Pakistan and Bangladesh won the Group's prestigious Golden Leaf Award for 2013. CTC was a key contributor to the award with industry-leading performance in the areas of profit, cash flow and growth in strategic brands.

Our value is not restricted to business best practice and stakeholder relations; it extends to the financial contribution to the government and value we generate to our shareholders. At the Colombo Stock Exchange, our share has performed exceptionally in what was a moderate year for the bourse, as we outperformed the All Share Price Index by as much as 43%. If a shareholder had invested Rs. 1,000 in CTC shares on 1 January 2009 and sold these shares on the 31 December 2013, total return would have been Rs. 23,596, including share price appreciation and dividends, providing a total gain of 2,260%. In fact, in 2013 CTC was the Most Valuable Company on the Colombo Stock Exchange for a period of time – which is evidence of the trust the public has placed in your Company.

**Q: CTC runs one of the most engaging sustainability initiatives in the country through SADP. What are the new initiatives and how much value has the programme added to the rural community and the Company?**

**A:** There is no doubt that our flagship CSR project Sustainable Agricultural Development Programme (SADP) is a truly engaging and rewarding programme that has added immense value to Sri Lankan society. It is a world-class initiative and one of the premier CSR initiatives in the BAT Group. By end 2013, SADP had touched the lives of 16,364 families and over 66,400 beneficiaries in 16 districts across Sri Lanka, by improving their livelihoods, increasing their nutrition and social enrichment. The programme is a benchmark in agricultural empowerment and expansion, serving as a model for national and regional development drives. Whilst we grew the number of families empowered through SADP by 40% this year, the Company has

*In 2013 CTC was the Most Valuable Company on the Colombo Stock Exchange which is evidence of the trust the public has placed in your Company.*

also taken steps to impart the programme to 4,100 of our tobacco farmers to proliferate alternate crops.

What we have also done during the past couple of years is to introduce measurable indices to the programme. The level of nutrition and the economic empowerment must be measurable, and we aspire to share this data and our experience with national and local-level authorities in order to build progressive synergies to take SADP and its reach to further underprivileged segments of society. An independent survey conducted by Ernst & Young displayed some admirable results that infused a great sense of pride amongst the team, and personally for me as the new Chairman of this best-in-class life changing initiative. SADP is a world-class programme and is very deserving of the attention and accolades it has received.

**Q: What can our shareholders expect from the Company in terms of performance over the next financial year?**

**A:** In 2014, we envisage another year of strong growth for Sri Lanka with low inflation and interest rate regimes. With the expected recovery in key

global markets, exports will record stronger gains and we look forward with keen interest to the consolidation of the banking and financial services sector.

At CTC, we will continue our focus on premium brands and we believe that the quality and value proposition we offer customers at the higher-end will continue to drive significant returns for your Company. Sri Lankan cigarette prices are amongst the highest in the Asia-Pacific region and pricing will continue to exert pressure on consumer buying power and choice. We will continue to focus on innovation and value offerings, as we have successfully done with DUNHILL SWITCH and John Player Gold Leaf Special to offer better products and value to our discerning customers.

We also need to maintain the pressure on illicit (smuggled) cigarettes. The disadvantage of high prices for cigarettes is that we have become a lucrative destination for smugglers and in 2013, Sri Lanka Customs officials confiscated over Rs. 1.3 billion worth of illicit cigarettes. This demonstrates the efficiency of the system and over the years, CTC has built a great partnership with law enforcement authorities through sharing resources, information and education on curbing the illicit menace.

We saw the emergence of unfair enforcement by interest groups who arbitrarily attempted to force our trade partners to stop selling cigarettes in certain areas. Whilst the CTC team has engaged with the authorities to manage the situation, I would like to urge the government and local authorities especially the police to take strict action against these illegal acts which disrupt business, impacting returns to the government, the Company and our trade partners alike. We will continue our focus on this disquieting trend and continue our education and engagement of key stakeholders.

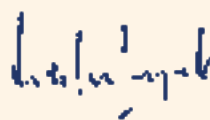
The tobacco industry is a legal business that has been in existence for over a hundred years. As a responsible business, we pursue our commercial objectives in ways consistent with changing

expectations of a modern tobacco business and despite being in a controversial industry; CTC and BAT have always kept the best interests of our consumers and stakeholders at heart.

**Q: What are your thoughts on the changes to key positions that took place over the past year?**

**A:** I will be failing in my duty if I do not recognise the contribution and efforts of my predecessor, Mr. J. D. Bandaranaike who served the Company for over four decades. BAT is globally renowned for its world-class processes which are required to be implemented across diverse markets world wide. He has been an integral part of implementing these changes at CTC over the years, which has helped your Company to achieve its premier status.

I must also recognise the contribution of Mr. Deva Rodrigo, who chaired the Audit Committee, whose position is now filled by Ms. Premila Perera. I also welcome our new Managing Director (MD) and Chief Executive Officer (CEO), Mr. Felicio Ferraz, who brings with him the true passion, spirit and commitment of a South American. I am glad to see him settling in well and I am confident he will take the Company to new heights. His predecessor, Mr. James Yamanaka, who is now attached to BAT Global Head Office, played a major role in taking the Company towards the pre-eminent position that it enjoys today. Whilst thanking each and every one of them for their contribution to the Company, I wish them well in their new endeavours. I would also like to recognize the excellent efforts of the CTC team, it is they who have delivered and driven your Company towards its position of leadership and strength.



**Susantha Ratnayake**  
Chairman

07 February 2014

## A conversation with the MD and Chief Executive Officer



*CTC had a great year in terms of performance. We have successfully delivered to our consumers' expectations in quality, innovation and product reach.*

**Q:** How would you rate CTC's performance in the year under review and has Sri Lanka proven to be a challenging experience?

**A:** Firstly, it gives me immense pleasure to address our valued shareholders through my first review of operations. As the only legal manufacturer of cigarettes in Sri Lanka, when I first arrived I wondered what my challenges would be; but we have had plenty of topics for discussion since then, from the proposed Graphic Health Warnings on cigarette packets, to a decline in volume and unfair enforcement. These challenges have kept us motivated and in turn helped us to deliver some extraordinary results.

CTC had a great year in terms of business performance. We have successfully delivered to our consumers' expectations in terms of quality, innovation and product reach. We have strengthened the solid foundation built over a century of excellence and CTC has a sustainable business model in place that will drive the Company forward despite the challenges it may face. These are the results of not only a sound business model, but also the strong set of values

we have built and inculcated in our people and having integrated CTC into the many communities that we operate in. I believe we have delivered an exceptional performance this year and I carry a great deal of confidence and optimism into 2014.

**Q:** Have we delivered adequate value to our stakeholders through our business operations?

**A:** I believe we are the best at creating value to all our stakeholders. The CTC share has delivered great value for our shareholders during the year under review. In 2013, CTC became the Most Valuable Company on the Colombo Stock Exchange for a period of time, achieving an exponential growth of 2,260% over the past five years, including the dividends paid out by the Company. Our financial strength and value of our corporate brand is also signified in the prestigious Business Today Top 20 as we rose from 7th position to 4th during 2013. This is truly a remarkable performance.

We take great pride in our partnerships with our distributors and trade and retail universe of over 76,000 members by whom we are recognised for some of the best trade loyalty and value addition programmes initiated by an organisation. CTC has made a name for itself as one of the top employers of the nation, which was reaffirmed by the top award for "Best Employee Relations" awarded by the Ceylon Chamber of Commerce for Best Corporate Citizens. Our flagship Corporate Social Responsibility programme, the Sustainable Agricultural Development Programme (SADP) has empowered the lives of over 16,364 low income families all across the island and has been acclaimed as one of the best agricultural and economic empowerment programmes in the country. Our products are 100% locally manufactured; the leaf that we use for our blends grown almost entirely in Sri Lanka by 12,000 farmers who work tirelessly to produce top quality leaf that goes into our product. These are but a few examples of the impact and enrichment delivered by CTC, and indeed we are one of the Best Corporate Citizens of this country adding value at every instance.

## A conversation with the MD and Chief Executive Officer contd.

**Q:** What is the status with regard to the proposed 80% Graphic Health Warnings on cigarette packaging? How does this impact CTC?

**A:** CTC is not in principle against Graphic Health Warnings. We are in favour of informing consumers of the health risks involved with smoking and this is done via a health warning to which we are already compliant under existing regulations. There is also room for better education and communication on its harmful effects as with many other products. What we are not in favour of is excessive regulation such as the proposed 80% warning on the front and back of the pack face. We strongly feel that it infringes upon our intellectual property and brand communication rights – and that it is excessive, which are some of our contentions before court.

As a responsible and reputed multinational, governance is of utmost importance to us. We are always compliant with existing laws of the land and have often moved towards self-regulation exceeding expectations by law. Our efforts with the island-wide Youth Smoking Prevention campaign to dissuade under-aged smoking is an example of one such initiative.

**Q:** How has CTC's volumes performed over the year under review?

**A:** The volume decline we experienced during the year under review can be attributed to a mix of factors such as pressure on consumers' disposable income, pricing and down trading to 'beedi' which went up in 2013, despite the decline seen over the past 10 years. We also saw unfair enforcement by certain sections of the law enforcement authorities, restricting and imposing penalties on our trade partners selling our legitimate product. In some areas of the country, our trade partners were forced to stop selling this legal product. There is a huge lack of understanding and awareness on this matter. In addition consumers are uncomfortable to exercise their right to smoke as permitted under the law because they may be unaware of and victimised for smoking in areas where they are permitted

*We are always compliant with existing laws of the land and have often moved towards self-regulation exceeding expectations by law.*

to do so. These factors collectively contributed immensely to our sales performance this year, and we have engaged with law enforcement authorities and our trade partners to educate them on the situation.

To compensate for the volume decline we took steps to increase the value of our offering while maintaining a stringent focus on quality. CTC looked at innovative offers in our premium segment which has worked very well in the market, such as DUNHILL SWITCH which was the first of its kind in the South Asia Area. With DUNHILL SWITCH we transformed smokers' experience and the product is delivering significant value to the premium range. In the latter half of the year we introduced John Player Gold Leaf Special to meet consumer requirements for a smoother and premium product, following which we re-introduced Bristol. In doing so we created a better mix of our brands where with lower volume we can still deliver revenue to government and the Company. To sustain our volumes, we need to be proactive and take corrective measures to prevent the growth of a massive illicit (smuggled cigarettes) market. We believe that with the expected growth in the economy and improvement in income levels, pricing will become a less significant factor.

## Q: What did the CTC Team do differently during this year?

A: During 2013, the British American Tobacco Group rolled out its new global strategy, The BAT Way. This new strategy places the consumer at the centre of everything we do. An extensive internal campaign was rolled out to align the Company to The BAT Way, infusing new life to how we approach the market, our production and supply chain and even aspects such as employee safety and quality.

In order to overcome the challenges before us during the year, we chose an innovative approach under the theme 'BRING IT ON'. Having divided the entire organisation into four teams, we presented a number of challenges under our strategic pillars to provide opportunity for the teams to develop innovative solutions on their own. These included aspects such as volume drive, social responsibility, sustainability and team building initiatives and the CTC team performed admirably, demonstrating the unique values which make our team a world-class unit. This is part of our people vision; to empower and to allow them to develop their own solutions and build their leadership skills, which in turn has made our people a much sought after talent in the BAT world.

CTC has continued to export its talent to the BAT Group and we are delighted to see Sri Lankan talent performing well in other parts of the world. We currently have 15 staff serving in regional markets around the globe.

## Q: What are the future prospects for CTC and the local tobacco industry?

A: No doubt the future will not be an easy one, but we are not afraid of challenges. The global anti-tobacco lobby will keep pushing their agenda, however I would like to stress that a world without a legal tobacco industry will not be what they envisage it to be.

If we look at the business, in terms of product we now have the advent of the e-cigarette. BAT

is taking the lead and investing boldly in Next-Generation Products, which include e-cigarettes, vapour products, less harmful cigarettes and more. To pursue future innovations in tobacco products, BAT acquired CN Creative Limited, a company with e-cigarette technologies already selling products in 22 countries and set up Nicoventures Limited to commercialise licensed inhaled nicotine products. These products are already in markets like the United Kingdom and from 2014 the Group will start to cascade its seeding strategy over key markets. We will bid to be one of those markets given the context of pricing and the constraints that we face here.

For the economy and industry, I tend to be very positive. Sri Lanka is growing at 7%, if you look at most other countries it is difficult to find that level of growth. I am therefore confident of the economic prospects of the country and the Company. The strategy now is to stabilise our volumes and grow them again by 2016 with the expected growth in the tourism sector. In January 2014 we launched TaO, a programme of new process efficiencies which will make us more agile and efficient. We have a strong portfolio of products driven by a team of dynamic and motivated professionals. Our products are world-class, encompassing the best blends and technology. Sri Lanka is doing great with the SWITCH technology which is still not found in some developed markets. When you consider all these factors I reiterate the medium-term prospects for the Company are strong and that the next two years will open new doors for innovation and expansion. I look forward eagerly to this new chapter of our development.



**Felicio Ferraz**  
Managing Director and Chief Executive Officer

07 February 2014



# Board of Directors

*(From left to right)*

**Mobasher Raza**  
Director

**Ariyaratne Hewage**  
Director

**Premila Perera**  
Director and Audit Committee Chairperson

**Felicio Ferraz**  
Managing Director and Chief Executive Officer

**Susantha Ratnayake**  
Chairman

**Henry Koo**  
Director

**Ariful Islam**  
Finance Director





## Board of Directors contd.

### Susantha Ratnayake

The Chairman of Ceylon Tobacco Company PLC, Susantha Ratnayake is also the Chairman and CEO of John Keells Holdings PLC, Vice Chairman of the Employers Federation of Ceylon and serves as a member of several clusters of the National Council of Economic Development. A past Chairman of the Sri Lanka Tea Board, Immediate past Chairman of the Ceylon Chamber of Commerce, he also serves on the Board of the national carrier Sri Lankan Airlines. He was appointed to the Board of Directors of CTC in October 2006.

### Mobasher Raza

Mobasher Raza was appointed to the Board of Directors of CTC in November 2007 as a Non-Executive Director. He has been with the BAT Group for the last 34 years. He held various key positions in the Finance function that include Internal Auditor for BAT UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica Duhana Zadar (BAT subsidiary in Croatia) and Finance Director at Pakistan Tobacco Company Ltd (PTC). In November 2006, he was appointed as Deputy Managing Director of PTC in addition to his role as Finance Director.

### Ariful Islam

Ariful Islam was appointed to the Board of Directors of Ceylon Tobacco Company PLC in March 2012 as the Finance Director. He has worked for BAT since July 1997 in various roles across Bangladesh, Vietnam and Fiji. Arif holds an MBA in Finance from the Institute of Business Administration, Dhaka University; BSc Honours in Economics from Scottish Church College, Calcutta University and an Advance Diploma in Management Accounting from the Chartered Institute of Management Accountants, UK. Prior to joining CTC, he was Finance Controller at BAT Bangladesh and before that Finance Director of BAT Fiji.

### Ariyaratne Hewage

Ariyaratne Hewage was appointed to the Board of Directors in April 2008 as a Non-Executive Director. He is a senior public officer and the former Secretary to the Ministry of Education. He has served in regional and central government agencies. He has also served as the Secretary to the Ministry of Ports and Aviation and several other Ministries as the

Secretary. He has worked as Director, Policy and Institutional Development of USAID funded Environmental Policy Project for five years on release from the government. He has obtained the degrees of Bachelor of Education (B.Ed) from University of Peradeniya and Master of Public Administration (MPA) from West Virginia University, USA. He was awarded the Hubert Humphrey Fellowship by the US Government to pursue higher studies in USA.

### Felicio Ferraz

Felicio Ferraz was appointed to the Board of Directors in March 2013 as the Chief Executive Officer and Managing Director. Felicio started his career in Souza Cruz, BAT subsidiary in Brazil as a Marketing Trainee. After several roles in Trade Marketing and Brands, he became the Marketing Director at BAT Cuba. He has worked at BAT Caribbean and Central America as the Country Manager of the Caribbean Islands and Country Manager of Costa Rica, Guatemala and Dominican Republic. Felicio holds a Bachelor's degree in Mechanical and Industrial Engineering from the PUC-RJ, a Business Administration degree from the Estate University of Rio de Janeiro and a Postgraduate degree in Strategic Marketing from Darden University, Virginia – USA.

### Henry Koo

Henry Koo was appointed to the Board of Directors of Ceylon Tobacco Company PLC in February 2013 as a Non Executive Director. He has been with the BAT Group for the last 23 years and has held a number of senior finance roles across the world including Singapore Group Financial Controller, Business Development Manager, Head of ASEAN Audit, Finance Director at BAT Taiwan, Far East North Area, Poland, Vietnam, Greater China Area based in the respective locations in Asia Pacific and Europe. He is currently a Director of BAT Singapore (group) and the Head of Operations Finance, Asia Pacific Region based in Asia Pacific Supply Chain Service Centre in Singapore. Henry holds a Bachelor of Accountancy Degree from the National University of Singapore and is a FCA of the Institute of Singapore Chartered Accountants.

## Premila Perera

Premila Perera was appointed to the Board of Directors of CTC in January 2013 as a Non-Executive Director. She was a Partner of KPMG Sri Lanka since 1990 and also served as Head of Tax Services of the firm when she retired on 31 March 2013. She has extensive experience in the areas of international tax, financial services, mergers and acquisitions. During her tenure with KPMG, she performed many roles for the Global firm, including serving as Regional Tax Director of KPMG Asia Pacific (in Singapore) in 2000/2001, as a member of the Global Task Force commissioned by the International Board of KPMG in 1998, to advise the Board on future direction in determining its long term strategic plans and faculty of the KPMG International Tax Business School. She also served a period of secondment with the US Firm's National Tax Office in Washington DC and was a participant at the KPMG-INSEAD International Banking School programme. She is currently a member of the Main Committee of the Ceylon Chamber of Commerce and was a presenter/moderator at various KPMG client forums as well as a resource person at forums organised by various professional bodies, Chambers of Commerce and USAID. She serves as an independent director and Chairperson of the Audit Committee of CTC. She is also a director of Holcim (Lanka) Limited.



# The Executive Committee

*(From left to right)*

**Ariful Islam**

Finance Director

**Sung Ju Han**

Supply Chain Director

**Dinesh Dharmadasa**

Corporate and Regulatory Affairs Director

**Felicio Ferraz**

Managing Director and Chief Executive Officer

**Rajiv Meewakkala**

Marketing Director

**Samanmali Chandrasiri**

Human Resources Director

**Ranjan Seneviratne**

Legal Director and Company Secretary







# Most preferred

## *Marketplace*

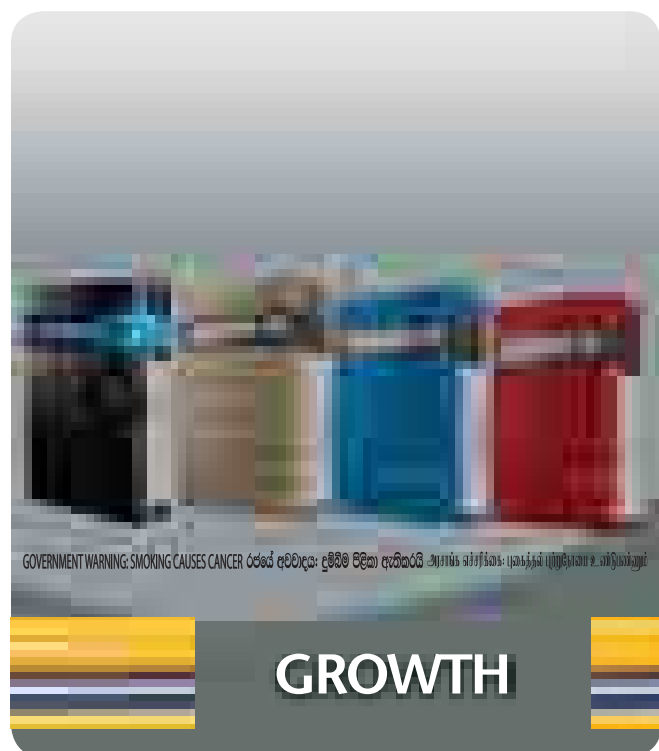
Our premium brand,  
DUNHILL, experienced a

**13%**

volume growth in 2013



# Overcoming External Pressures



*Our passion to innovate and a relentless commitment to excel served as the catalyst for our accomplishments, strengthening our position as a 'Preferred' business partner.*

## Overcoming External Pressures

Our growth and performance is propelled by combined efforts in the spheres of Brands and Trade Marketing. In what was a difficult year for the tobacco trade in Sri Lanka stemming from external pressures, CTC sustained its position of excellence in the market expanding its distribution and reach. Our passion to innovate and a relentless commitment to excel in an increasingly difficult environment served as the catalyst for our accomplishments, strengthening our position as a 'Preferred' business partner imparting significant value and growth for our customers.

In 2012, our volumes were affected by a number of external shocks. The severe drought and the consequent flooding in various parts of the island impacted our performance last year, which resulted in an impact on our sales performance in 2013 due to the diluted buying power of consumers. This was further impacted by the excise led increase in price of a cigarette stick by Rs. 3.00 in July 2013. The combination of these two factors projected a volume loss of up to 9% during the year, but due to the effective interventions done by the

Company at both Brand and Trade Marketing level we were able to restrict the drop in volumes to 6% over the previous year. During this period, CTC was successful in expanding its coverage and with a concerted Brand Marketing effort behind our key brands DUNHILL and John Player Gold Leaf, we were able to stem the decline of volume.

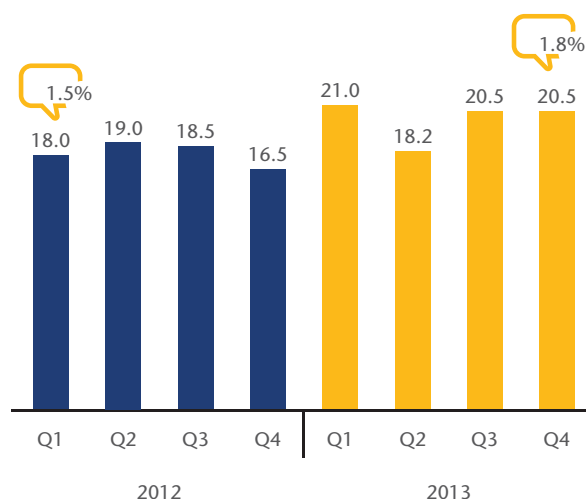
Despite the drop in overall volumes, our premium brand, DUNHILL, grew at 13% – a testament to the investment and trade activity behind the brand. Our innovative capsulated variant DUNHILL SWITCH, which is sold at a premium over the base range, is growing at an exceptional pace delivering profitable volume. CTC expanded its premium base rapidly due to the up-trading we witnessed with the SWITCH innovation. It is evident that Sri Lankan consumers are willing to pay a premium for quality innovations and this has served as a good learning for the Company in its future strategy. We will continue steadily on this path and the next step entails the launch of DUNHILL ICE where consumers could boost their mentholation experience again employing SWITCH technology. However, it must be stated that this does not represent the future of tobacco innovation. We will expand our offering to areas such as packaging and blend innovations that would spread out over many propositions of the brand.

CTC invested considerably in John Player Gold Leaf at trade level and the brand also received a significant boost with the introduction of John Player Gold Leaf Special at a premium price point. The product is performing beyond expectations and has found its niche in the market. The other big brand initiative was the reintroduction of Bristol. With its advent, CTC managed to strengthen its foothold directly below John Player Gold Leaf. This was important as it was evident that with dramatically increasing prices, consumers shifted right down to our value-for-money segment of Capstan and Three Roses. With Bristol's foray into the market consumers are now provided with a solution in between, which also helps us to protect overall profitability and volumes.

To take a closer look at some of our efforts on the ground, we are pleased to report the expansion of our Trade Marketing and Distribution coverage with the strengthening of our wholesale network. The key initiative in 2013 was the relaunch of our trade loyalty programme 'Abhisheka'. This unique programme was in existence for a period of time and having served us well, CTC now offers non-cash benefits in addition to the cash incentives provided to the trade. The benefit we derived is in the form of growth in our premium SKUs. For instance, whilst the national share of DUNHILL is 2%, the share of the brand in these outlets stands at 5%. In addition to 'Abhisheka', we hosted peripheral programmes such as the 'Sathkaara' hygiene academy for restaurants and eateries, and the HoReCA academy for the hospitality trade. These programmes combined help us achieve a better

### DUNHILL Experienced 13% Volume Growth in 2013

(In Mn. sticks)



CTC relaunched its trade loyalty programme 'Abhisheka' in 2013

foothold and relationship with our business partners and we will continue to expand these efforts to a wider audience during 2014.

In our last retail census conducted two years ago we measured our direct distribution reach as 32,000 outlets. We have since grown this number to 52,000 as revealed during a survey this year. This shows the substantial growth and effort over the last two years delivering significant strength and control over the market. This also enables us to keep a better control of illicit trade and engage with a wider audience. CTC is currently conducting a route to market assessment and we envisage the development of a number of new strategies to enhance our reach and efficiency. These proposals will be implemented during the first quarter of 2014. We take pride in our position as a much valued and preferred business partner of the trade; a commitment we envisage to grow and strengthen during the coming year.

One of the biggest obstacles during the year under review was unfair enforcement, where in a number of areas our trade partners were prevented from selling tobacco products by various parties with vested interests. This scourge which began in four specific geographies soon spread all over the island, but we have since managed to control the situation.

External environmental and economic factors will play a vital role in our performance in 2014, but as alluded to, CTC and its Marketing team have founded a platform for growth based on its penchant for innovation and a vitalised Trade Marketing and Distribution scheme. Sustained growth is a key strategic pillar to our continued success and we are confident of delivering a growth projectory, notwithstanding the challenges posed by the environment.

# Distributor List

Distributor	Length of Relationship (Years)
<b>Colombo</b>	
The Arunadisi Ltd	85
W D Paulis Appuhamy & Co	81
Samaranayake & Co (Pvt) Ltd	62
Jayawardena & Sons	29
Excel Distributors (Pvt) Ltd	9
<b>South</b>	
P D Pedoris Appuhamy & Co Ltd	82
S U Mohamed Hajjar (Pvt) Ltd	82
K M Siyaneris & Co Ltd	82
Wickramarathne Distributors	27
<b>Central</b>	
Bibile Trading & Forwarding Agency	69
Gamani Brothers	57
Ampara MPCS	49
Amirthans Distributors	27
<b>North</b>	
G H A de Silva & Co	57
D S Gunasekara Ltd	57
Kurunegala Merchants Ltd	47



(Distributors - from left to right) Niral Kadawatharachchi, Chandana Wickramaratne, Kalana Hewamallika, Harith Jayawardene, Thiwanka Jayakody, Sivapathesundaram Gnanasambanthan, Mohammad Mumtaz, Sellathurai Amirthalingam

# Main Supplier List

Supplier	Country	Length of Relationship (Years)
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## Foreign Suppliers

Tann Papier G.M.B.H	Austria	30
Daicel Corporation	Japan	25
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	25
Arets Graphics	Belgium	4
Indian Tobacco Company Limited	India	14
General Metallisers Limited	India	14
Anzpac Services (Australia) Pvt Ltd	Australia	13
Tann Philippines Inc.	Phillipines	9
PT Argha Karya Prima Industry,TBK	Indonesia	8
Siegwerk Switzerland AG	Switzerland	8
P T Bukit Muriya Jaya	Indonesia	5
Tien Wah Press	Malaysia	5
Payne India (Pvt) Ltd	India	2
Amcor Tobacco Packaging	Singapore	4
Sun Chemicals - Switzerland	Switzerland	2
Henkel Adhesives Technologies India Pvt.Ltd	India	3

## Local Suppliers

ACE Printing & Packaging (Pvt) Ltd	21
Ceylon Tapes (Pvt) Ltd	15
Packwell Lanka Pvt Ltd	14
PrintCare Packaging (pvt) Ltd	7
JF & I Packaging	1



(Distributors - from left to right) Krishanthi Yahampath, Kamani Samajeewa, Swineetha Gunaratne, Roshan Samaranayeke, Muditha Wijesinghe, Mohammad Hamza, Chaddantha Wijesinghe, Piyadasa Lekamwasam

A photograph of a worker in a blue shirt and cap working on a large piece of machinery in a factory setting. The worker is in the foreground, slightly to the right, looking down at their work. In the background, another worker is visible, and the factory environment with various structures and equipment is shown.

# Most preferred

## *Supply Chain*

We achieved cost savings of

**30%**

over our stretched target through efficiency improvements and waste minimisation



# Proactive, Productive, Performance - links of our Supply Chain



*The strength of our Supply Chain stems from decades of experience and our constant quest to challenge boundaries to achieve the best results.*

At the heart of our century of existence and excellence, lies a unique and adept Supply Chain function driving multiple facets of growth and value from 'crop to consumer'. In the British American Tobacco Group, Sri Lanka has the distinction of being one of the few countries with a fully-integrated operation; from tobacco growing, green leaf threshing (GLT) and a manufacturing plant. In addition to the considerable efficiencies delivered by a completely Sri Lankan operation, our presence on the ground has enabled us to build lasting relationships in the agriculture, manufacturing and distribution sectors, where the Company has imparted significant value to our stakeholders for generations. This foundation of trust and mutual benefit built over a century renders CTC a 'Most Preferred' partner even at the grass root level, a position of pride we will retain for generations to come.

The strength of our Supply Chain stems from decades of experience and our constant quest to challenge boundaries to achieve the best results. Over the years we have preserved the experience and learning from tobacco growing and

manufacturing and shaped them effectively with the advancements and needs of a modern market. Our ability to adapt and adopt has yielded a world-class operation that serves as a benchmark for the rest of the region.

In 2013 we witnessed an abundant year for tobacco leaf, showcasing significant improvements in field productivity (Yield per Hectare) as well as the green leaf threshing process whilst effectively managing the cost of production. It was a testament to the time and effort invested by CTC's leaf team who constantly engage with tobacco farmers to discuss and develop effective means of agricultural technology. We have improved our crop profile and quality of leaf, supporting the new blends and innovations developed by our product team. During the year under review, we designed 'Grow for Choice', a programme to develop and educate our leaf team and farmers alike on meeting the stringent quality and blend requirements. CTC is renowned for its industry-leading agronomy practices, which we are proud to share with farmers and agricultural bodies around the country.

To ensure long term leaf sustainability CTC has migrated the crop production to areas with lower external risks and introduced sustainable agricultural practices such as use of new improved hybrid varieties, barn automation, soil and

water conservation programmes. Stepping beyond tobacco cultivation CTC included tobacco farmers into the SADP Ultra programme. The leaf team also fostered partnerships with external organisations such as universities, research institutes and farmer organisations through training and sharing our renowned agricultural best practices.

On the manufacturing front, our GLT plant in Kandy operated at enhanced levels of productivity and efficiency to support the advancements in the quality and quantity of leaf. We focus on designing and developing new and innovative blends of tobacco products and the leaf team, together with the product and GLTP teams have perfected new ways to meet these demands. This is also reflected in our operations at the manufacturing plant in Colombo, which achieved productivity improvements over 30% in premium brand product lines. The focus on quality brings new challenges and opportunities and we are proud to have built an effective platform to perform above expectations.



*CTC continued its focus on quality in 2013 through the Drive Zero Campaign*

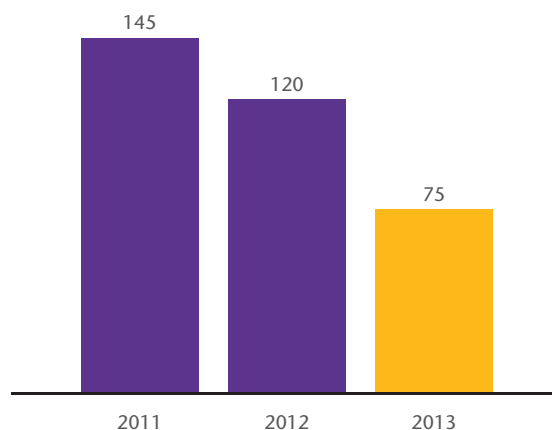
Our penchant for Total Quality Management is also demonstrated from the positive feedback we received from the market, from both customers and consumers. In 2012, we reduced consumer complaints by over 17% and in the year under review, we were able to reduce another 37% over the previous year's number. CTC is committed to produce best-quality products that cater to all our consumer needs, and we derive a great sense of pride in the progress we have achieved in this respect.

To complement our operational objectives and to deliver upon the production and quality focus, the CTC Supply Chain team launched project "RePCo" (Reducing Product Cost) aimed at rationalising cost. This was by no means a cost-cutting drive, instead focused on improving efficiencies and reducing waste. Through this programme, we were able to achieve cost savings of 30% over our stretched targets; a winning formula given our enduring focus on quality. Following the success of RePCo, the Company is in the midst of replicating its process to other areas of operations to extend and grow its achievement.

In a bid to strengthen our integrated approach of 'Crop to Consumer', our people focus this year concentrated on building 'Supply Chain Professionals'; educated and aware, ready to take on challenges and opportunities across the line. Accordingly, members of the Manufacturing team gained insights and training on leaf growing and GLTP, whilst the leaf team acquired knowledge of the factory operations in Colombo. In addition to developing a constant pool of talent to take up leadership roles in Sri Lanka and overseas, the programme built a great deal of knowledge and appreciation of the supporting functions, enabling greater consolidation of processes. In addition, BAT's new operating model, TaO, brings about significant changes to the way we work, and the process is expected to deliver greater efficiencies and convergence to a common operating platform. Considerable training hours were invested on TaO

#### **Customer Complaints Reduced by 37% Against 2012**

(Number of Complaints)



## Proactive, Productive, Performance - links of our Supply Chain contd.



*The TaO Team: Project TaO implementation is considered the benchmark operation in the region.*

*We are proud of the productive supply chain we have developed, and of our people who continuously deliver exceptional results.*

from the factory floor workforce to executives and managers and we were able to complete a smooth transition to the new platform in January 2014. TaO places significant focus on Supply Chain and the CTC implementation is considered the benchmark operation in the region.

We are proud of the productive supply chain we have developed and of our people who continuously deliver exceptional results. In addition to the values and empowerment we deliver to our team, we also provide our staff a safe and healthy working environment. Our Company recorded yet another year with zero lost workday cases (0 LWC) due to accidents, an accolade in its fourteenth year of running at the Colombo factory. The Company adopts a Risk Management Policy which governs its every facet of operations and we are proud to have inculcated safety

habits beyond the factory floor to the wider organisation. In June 2013, CTC launched the Work Safe Month inviting every department to focus and champion aspects of health and safety. These include activities such as the Hazard Hunt where we encouraged departments to identify potential hazards around the Company premises and to develop effective measures to overcome them. We aspire not to merely conform, but to excel at health and safety standards and CTC has again been commended as the benchmark for this important feature in the South Asia Area.

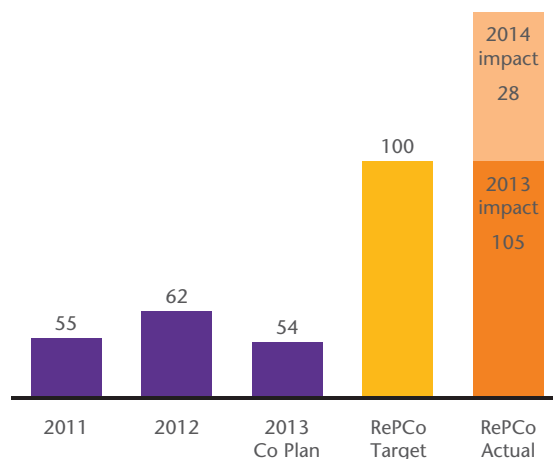
The future demands stemming from the market will bring about numerous challenges as we strive for premium and innovative products as we have done with DUNHILL SWITCH and the John Player Gold Leaf line extensions. Our unrelenting commitment to excel and adopt new technology solutions will ensure our ability to meet these challenges, as we continue to be a preferred partner for our valued business partners and the BAT Group.



*CTC focused on improving efficiencies and reducing waste in 2013*

#### Savings Delivered Through Project RePCo

(In Rs. Mn.)





# Most preferred

## *Sustainability*

We enriched the lives of

**66,400 +**

beneficiaries in 16,364 families in  
16 districts through SADP by the  
end of 2013.



# Sustainability At Its Core



Ceylon Tobacco Company's sustainability ethos is founded on the five pillars: Harm Reduction, Marketplace, Environment, Supply Chain and People and Culture. Our sustainable business focus shapes every aspect of our operations - it extends to the marketplace, our farmers and even manifests in our contribution to the national economy.

Our vision for a sustainable tobacco business is one that manages the impact of its operations and products responsibly and prepares for a future in which it continues to create value for our shareholders. Given the nature of our business, it is vital to demonstrate openness and build trust amongst all groups. We achieve this through good governance and effective stakeholder engagement, which is effected through a transparent and an independently assured reporting process. Best practice and effective governance is critical to ensure we manage our sustainability impacts and our wider business in a responsible manner. We are relentless in our mission to be recognised as a responsible and preferred business partner by our stakeholders at all times.

*Our sustainable business focus shapes every aspect of our operations - it extends to the marketplace, our farmers and even manifests in our contribution to the national economy.*

At CTC, Corporate Social Responsibility is governed by a CSR Steering Committee reporting to the Board ensuring a diverse flow of ideas and an effective process of checks and balances. In 2002, CTC was the first Company in Sri Lanka to publish a Sustainability Report, applying a rigorous approach to our reporting process from the outset.

As alluded to, the culture of sustainability pervades every facet of our operations. As a responsible multinational, CTC is compliant with all national laws and regulations which govern the tobacco industry. The Company has taken steps to regulate its operations far and above statutory requirements and all operations are strictly aligned to BAT's global protocols on tobacco production and marketing. We firmly believe in maintaining frank and open dialogue with all stakeholders to ensure sensible regulations, safeguard the sustainability of our operations and maintain our position as a significant contributor to government revenue. It also gives us valuable feedback on our policies, procedures and ways of working, so that we can continually improve them.

Sri Lanka remains a lucrative destination for the illicit tobacco trade as cigarette prices in the country are among the highest in the Asia-Pacific region. In 2013, Sri Lanka Customs confiscated over 50 million illicit sticks smuggled

into the country, valued at over Rs 1.3 billion. There were 1,642 detected cases during 2013. Illicit cigarettes pose a grave threat to government revenues and consumer health, and the Company is continuing to work closely with law enforcement authorities to curb this burgeoning global menace.

The Youth Smoking Prevention campaign is a key trade initiative promoted by CTC under the pillars of Harm Reduction and Market place. The Company has taken several measures to constantly educate our trade partners against the sale of tobacco products to minors, providing legal and practical aid to them. This campaign is driven aggressively island wide, reaching out to the entirety of our retail universe.



*The Youth Smoking Prevention campaign*

Our commitment and contribution towards the development of agriculture in Sri Lanka spans over half a century of unstinted excellence. Employing its extensive knowledge in tobacco cultivation and drawing from its global experience and resources from the BAT Group, the Company has permeated these best practices to the agricultural sectors in Sri Lanka, as we did with sloping agricultural land technology in the early 1980s. We continue our commitment to the sector with our flagship CSR project, the Sustainable Agricultural Development Programme (SADP), providing vital support to thousands of under-privileged farmers and their families across the island.

SADP is an unique programme carried out under 'Outreach Projects (Guarantee) Limited', a separate entity which runs and manages our CSR projects. The programme is designed to empower rural villagers living below the poverty line in Sri Lanka, based on the philosophy of 'helping those who are willing to help themselves'. Some of the salient features

of this 30 month programme include voluntary registration, zero cash handouts and the increment of input based on the commitment of beneficiaries to rise above poverty. The programme has been recognised by various stakeholders as one of the best economic empowerment and agricultural development programmes in the country and in 2013, SADP won the award for "Environmental Value Addition" amongst Sri Lanka's ten Best Corporate Citizens presented by the Ceylon Chamber of Commerce.

SADP families are introduced to home gardening and animal husbandry as means to improve their livelihood and nutrition levels, empower women, enrich the environment and encourage maximum land utilisation to achieve self-sufficiency. By the end of 2013, SADP had empowered the lives of 16,364 families and over 66,400 beneficiaries across 16 districts, with plans to add a further 1,400 families during the coming year.

In recognition of SADP's contribution and value addition to rural society, the government through its agencies invited CTC to implement this programme to identified segments and complement its national development drive. Accordingly, CTC developed SADP PLUS for farmers in former war-torn areas in the Trincomalee and Kilinochchi districts, where cash-crops such as maize and ground-nuts were introduced in addition to home-gardening. SADP LITE was introduced at the request of the Ministry of Rehabilitation to assist the army in rehabilitating over 1,400 ex-LTTE combatants by providing them agricultural knowledge at the Kandakadu farm in Polonnaruwa. This project was completed in 2011. In addition, SADP MEGA boasts a model farm in Sooriyawewa, whilst SADP ULTRA was launched in 2013 to promote the growth of alternate field crops to tobacco farmers. This programme will reach 4,100 families during 2014.

An independent survey conducted by Ernst & Young revealed the real reach and empowerment delivered by SADP through a comprehensive audit of the beneficiaries, evaluating the economic impact of the programme. The survey revealed excellent findings with more than 85% of beneficiaries having reached economic self-sufficiency.

**More details of the programme are available in the SADP booklet presented with this report.**

In addition to its efforts driving agricultural best practice and economic empowerment, CTC is a long-standing partner of

## Sustainability Report contd.



*Partnering the national development drive - Weeraketiya Police Station under construction*

*By encouraging volunteerism and freedom through responsibility CTC aims to develop the next generation of leaders who are committed to social upliftment.*

the Sri Lankan Government in its national development drive and measures to strengthen civil administration. As part of these ongoing efforts, at the invitation of the government, in 2012 CTC undertook rebuilding of the Weeraketiya Police Station in Hambantota District to support the major infrastructure and commercial development drive in the area, which will be our Southern commercial hub. The Company had constructed two police stations in Kilinochchi and Mankulam previously, which also provides accommodation for over 100 police personnel.

Sustainability and social responsibility at CTC is not limited to corporate management or the executing department; it is a value that is deeply embedded amongst the CTC team and driven by our Group's new global strategy – The BAT Way. Employee participation and volunteerism for CSR projects has been a distinctive trait of the CTC team for decades and they strongly believe in the spirit of giving back and making a significant contribution to the community. In 2013, we approached staff CSR engagement differently through a campaign spread across multiple regions. The 300-strong CTC family was divided into four cross-functional teams under our internal campaign 'BRING IT ON', reflecting the four main regions in which the Company operates – Southern Braves, Northern Knights, Central Giants and Colombo Champs. Each team was given the freedom to choose a social cause which they felt deserved attention,



*Staff CSR at CTC - Southern Braves cleaning up the Kataragama sacred area*



*CTC Christmas cards depicting the winning artwork by the residents of the Salvation Army Haven and Sunshine House*

resulting in projects that were diverse in location, nature and effort.

Subsequent to the Kataragama Festival, the Southern Braves volunteered to clean up the surrounding areas of the sacred city as their employee CSR project. The team not only successfully achieved their objective, but was also able to encourage additional involvement from local business partners and our distributors. The Northern Knights identified three remote deserving schools in the Northern Region, launched a book collection drive and donated these and other required stationery items to the students. The Colombo Champs contributed towards residents of the Salvation Army Haven and Sunshine House in Colombo. The team undertook to refurbish the premises, even organising cookery demonstrations where residents participated enthusiastically and concluded with an art competition. The winning paintings were chosen as designs for CTC's Christmas cards last season, giving the residents an additional source of pride and achievement. The Central Giants answered a call for help by the Sarana Sevana Lama Nivasaya in Kandy, which houses orphans between the ages of 6 and 18. The team identified difficulties faced by its management to offer better facilities to resident children, and spent many long hours upgrading the premises. Special attention was given to eradicating mosquito breeding sites and creating a compost pit to dispose garbage in an environmentally-friendly manner. The Giants further donated books to the library along with three computers.

By encouraging volunteerism and freedom through responsibility, CTC aims to develop the next generation of leaders who are committed to social upliftment. Providing a safe place to work, protecting our employees' well-being and listening to their views are also fundamental to this belief. Sustainability at CTC goes beyond the concept of philanthropy; it pervades our every aspect of business, touching the lives and livelihoods of thousands of Sri Lankans. To grow our business we must operate sustainably – creating shared value for our stakeholders and society in a challenging and constantly evolving landscape.



*CTC was awarded the "Best Corporate Citizen" Award and our flagship CSR Project SADP won the award for "Project for Environmental Value Addition".*





# **Sustainable Agricultural Development Programme**

**THE STORY OF OUR JOURNEY TO EMPOWER LOW INCOME FAMILIES THROUGH SADP**



# **SUSTAINABLE AGRICULTURAL DEVELOPMENT PROGRAMME**

**The Ceylon Tobacco Company PLC (CTC) has a proud history of over 100 years in Sri Lanka and for decades, we have worked in harmony with the rural communities of the country.**

**The Sustainable Agricultural Development Programme (SADP) was developed to enhance the living standards of the communities in which we operate in. The beneficiaries of SADP are families living below the poverty line in the poorest districts in the country. By sharing our years of expertise in agriculture, SADP aims to alleviate poverty among rural communities in Sri Lanka.**

**SADP provides families with inputs - necessary knowledge, skills and supervision - to develop home gardens, poultry, animal husbandry, apiculture and mushroom cultivation.**

**Families who successfully graduate from SADP are economically self-sufficient and able to meet their daily nutritional requirements.**



**Working on the philosophy: “helping those who are willing to help themselves”, some of the salient features of SADP are voluntary registration, no cash handouts and the increment of input based on the commitment of the beneficiaries to rise above poverty.**

**What follows is the story of our journey to empower rural communities in Sri Lanka through SADP.**

# **VISION & OBJECTIVES OF SADP**

**The vision of SADP is to reach out to rural villagers living below the poverty line in lagging regions of Sri Lanka and guide them to achieve self-sustenance by creating a paradigm shift in thinking, and imparting knowledge and resources.**

**The objective of SADP is to implement the programme amongst rural families and alleviate poverty among these families in a sustainable manner by adopting the following measures:**

- **Provide a balanced meal and improve nutritional intake**
- **Increase the level of agricultural knowledge**
- **Provide an additional source of income**
- **Female empowerment**
- **Enhance land utilisation & productivity**
- **Promoting organic farming**





# **ALIGNMENT OF SADP WITH NATIONAL PRIORITIES**

**The Sustainable Agricultural Development Programme (SADP) developed by CTC is fully aligned with the national priority of poverty alleviation through agriculture.**

**SADP is in line with the “*Api Wawamu Rata Nagamu*” (let us cultivate and uplift the nation) programme, which promotes cultivation of vegetables, fruits, yams and herbal plants to meet the daily needs of households.**

**SADP is also aligned with the “*Divi Neguma*” (building lives) programme which promotes one million home gardens for a sustainable agricultural nation with the aim of achieving sustainable earnings, food security and higher income for the beneficiaries of the programme.**

## **KEY FEATURES OF SADP**

- **Families are selected based on their commitment and capability to adopt and adapt to the technology and best practice transfers**
- **A mind shift is created in the participants to believe in their ability to make a better life for themselves**
- **Women are empowered and their significant role in each household is recognised**
- **The environment and ecology are protected**
- **Productivity of the home garden is greatly enhanced**
- **Use of compost and Integrated Pest Management (IPM) discourages the use of imported fertiliser and pesticides**
- **No cash handouts**
- **Involves the entire farmer family**
- **The programme is designed to meet the household food and nutrition needs and the excess may be sold in the village market**





# PROFILE OF SADP BENEFICIARIES

**A typical family that benefits from SADP lives with their children and parents in a basic house on a 20-40 perch land in rural Sri Lanka.**

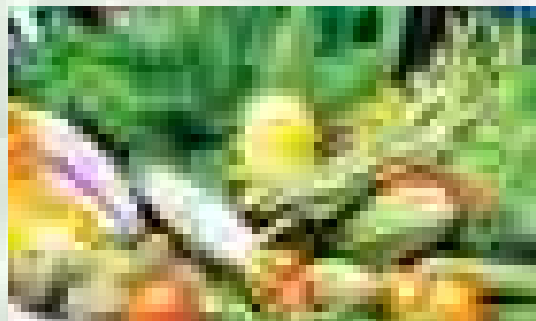
**On average, the adults have received basic education and are either unemployed or engaged in irregular labour-based employment. Their monthly income is less than Rs. 3,725 (approximately USD 28)\*, which falls below the poverty line.**

**The families are chosen after consultations with government officials such as Divisional Secretaries, Grama Niladhari (village headmen) and Samurdhi officers who identify the beneficiaries.**

**In order to become a beneficiary under SADP, the family should possess land for cultivation with access to water.**

*\*Source: [www.statistics.gov.lk](http://www.statistics.gov.lk), as at May 2013.*

# BENEFITS OF SADP



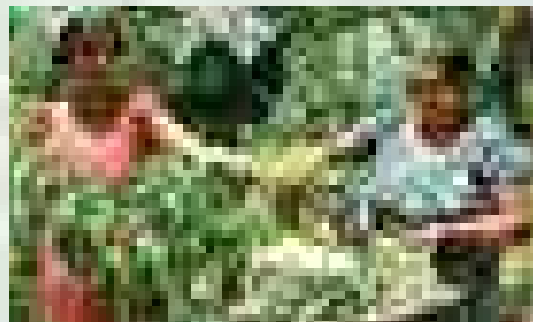
## Mitigating Malnutrition

- **Providing a balanced meal using organic food cultivated in their own home gardens**
- **The production of milk and eggs supports the essential nutritional needs of each household**
- **The programme improves the quality of health and the level of nutrition of the rural poor and further facilitates eradication of child malnutrition**



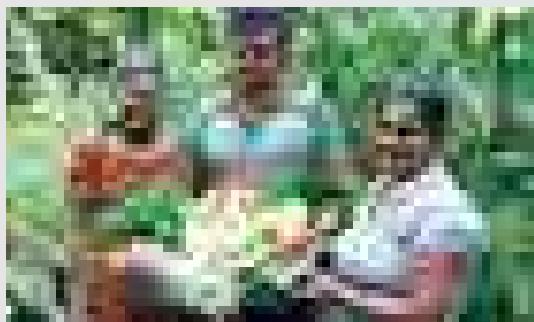
### **Environmental Impact**

- **Better conservation of soil by planting trees and prevention of soil erosion**
- **Improvement of soil organic matter content and fertility results from enhanced farming practices**



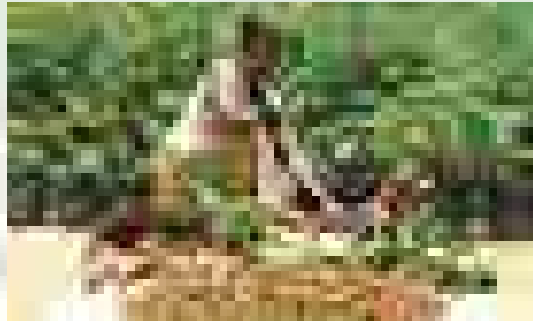
### **Female Empowerment**

- **The females in the households have driven many of the initiatives. This has resulted in:**
  - **Knowledge and skills transfer to other females in the community**
  - **Decreased dependency on the male heads of the families**



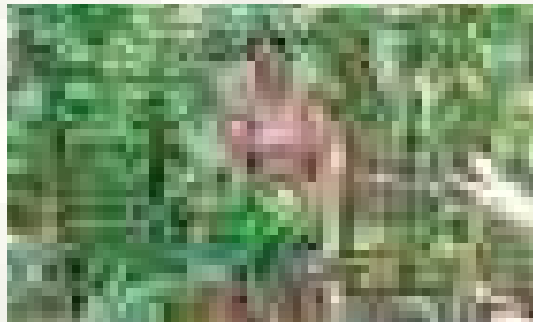
### **Social Benefits**

- **Farmer households become happy and healthy households with unity**
- **The programme gives the adult members of the family the opportunity to be involved in productive activities. It leads to a more harmonious atmosphere amongst the village community**



### **Economic Benefits**

- **Families fulfil their daily nutritional requirements by reaching self-sufficiency**
- **Greater disposable income by trading their excess produce**



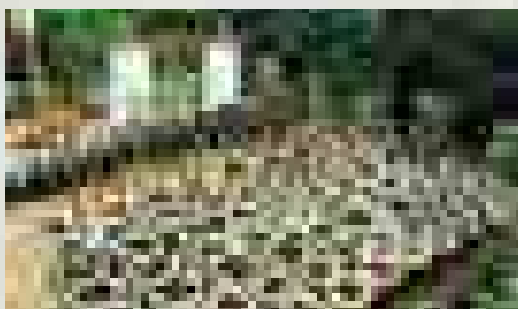
### **Creating Paradigm Shifts**

- **Once the village families have achieved results of the programme and become self-sufficient, they gain the confidence to further improve their production, expand their cultivations and explore new markets**

# IMPLEMENTATION OF SADP

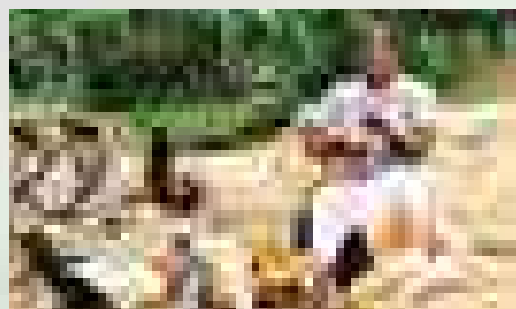
SADP IS IMPLEMENTED IN FOUR STAGES DURING  
A PERIOD OF 2 1/2 YEARS.

## STAGE 1 0-6 MONTHS



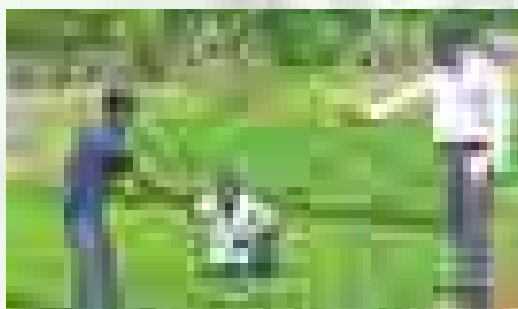
- Registration
- Preparing Compost Pit
- Gliricidia fencing
- Issuing plants & seeds
- Field support

## STAGE 2 7-15 MONTHS



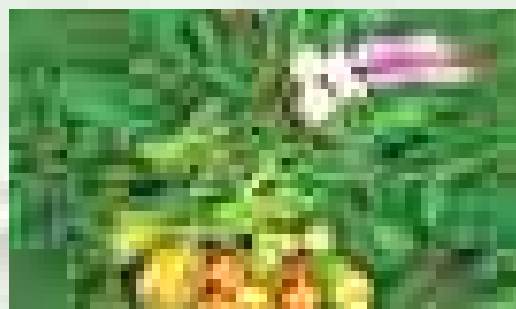
- Forming clusters
- Forming societies
- Issuing plants & seeds
- Issuing poultry
- Field support

### **STAGE 3 16-24 MONTHS**



- Issuing animal husbandry
- Issuing plants & seeds
- Field support

### **STAGE 4 25-30 MONTHS**



- Preparation for graduation
- Graduate after 30 months
- Field support



## **THE BIRTH OF SADP PLUS**

**The year 2007 ushered in a new era of development and growth for Sri Lanka with the liberation of the Eastern Province. An invitation was extended by the Government of Sri Lanka to the private sector to assist its post-conflict reconstruction efforts.**

**Responding to the Government's invitation, the programme was launched in the East as SADP Plus, in the 2nd Quarter of 2009. 1,700 families benefit from SADP Plus in Thampalakamam, Gomarankadawala, Kuchchaveli and Morawewa in Trincomalee District. The main work streams under SADP Plus are developing self-sustenance through home gardening and developing livelihoods through cash crop cultivation. Out of 1,700 families, 1,567 graduated from the programme in Q2 2012; a total of 6,066 beneficiaries.**

**With the end of the war in the North, the Government invited the private sector to assist in the reconstruction process. To support this national requirement, CTC took on 1,000 families from the Kilinochchi District in the North of Sri Lanka under the SADP Plus Programme in Q3 2012.**

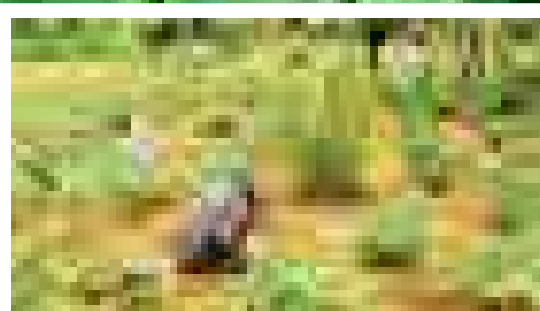
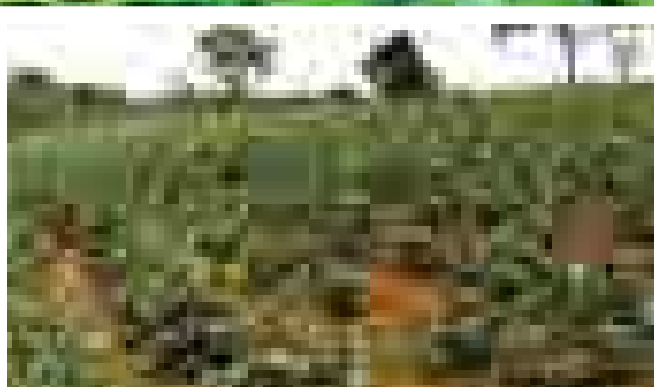
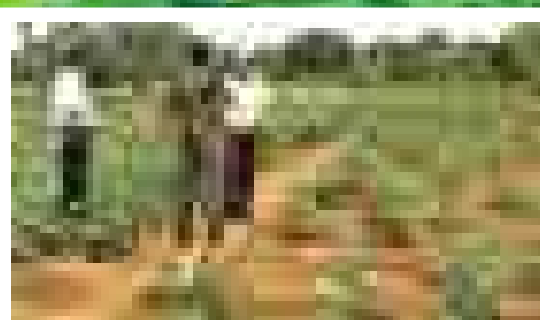
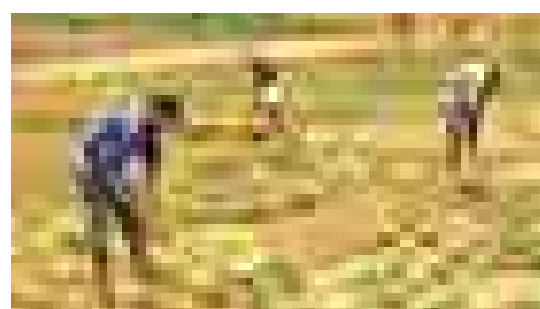
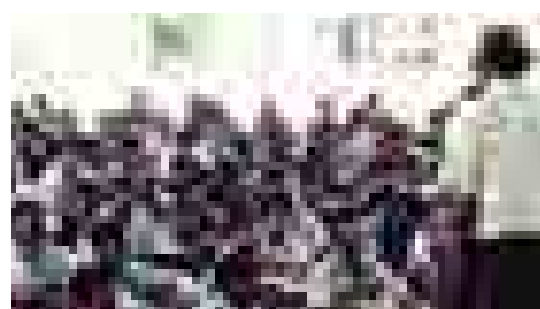




## **SADP LITE**

**With the end of the thirty-year-old conflict, responding to a request by the Ministry of Rehabilitation and Prison Reforms of Sri Lanka, to assist in rehabilitating ex-combatants, SADP Lite was introduced in the 1st Quarter of 2010.**

**The SADP Lite programme designed for a period of 12 months, assists 1,449 beneficiaries by imparting agriculture-related vocational training. An abandoned NLDB farm spanning 11,130 acres situated 30 kms off Welikanda in Kandakadu was selected for the programme.**

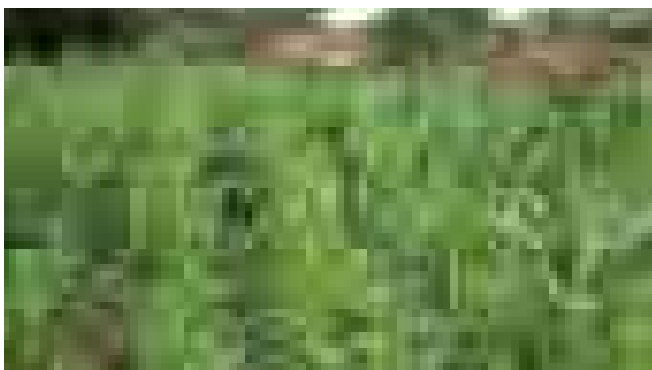




# **SADP MEGA**

## **Sooriyawewa Organic Farm**

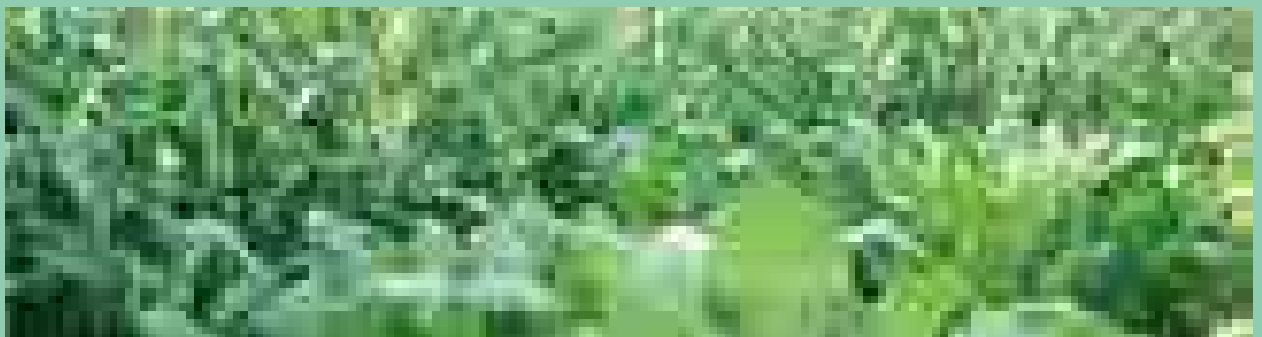
**“Na Sevana Development Project” was initiated in the 1st Quarter of 2011 with the objective of establishing a model farm on 12 acres of land in Meegahajandura village in the Hambantota District for the benefit of the people in the area.**

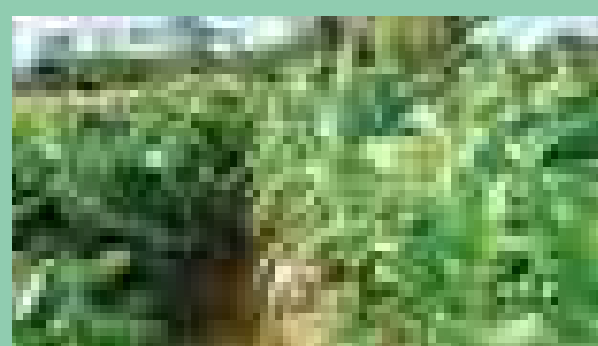
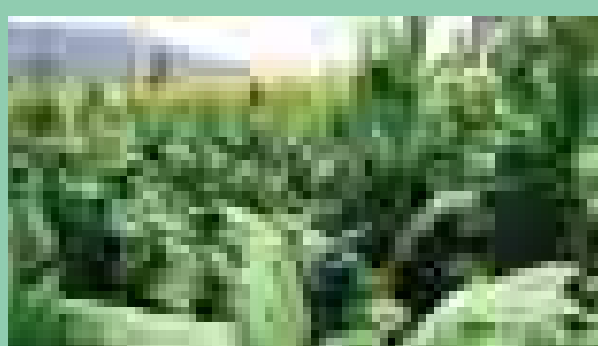




## **SADP ULTRA (2013)**

**The project was launched with the objectives of introducing Tobacco Leaf farmers to better crop management techniques, improving their contribution to National Food Production and promoting the growing of vegetables to fulfil their dietary requirements. It also enables them to generate additional income by selling surplus produce. SADP Ultra was launched in 2013 and is spread across 07 Districts, benefitting 4,100 Tobacco Leaf farmer families; a total of over 16,000 beneficiaries.**





# SADP at a Glance



## SADP (2005)

The poverty alleviation programme under which people living below the poverty line in selected rural villages from 11 districts of Sri Lanka are provided with the required input to become self-sufficient through home gardening and animal husbandry. Under this programme, the beneficiaries are supported for two and a half years.



## SADP PLUS (2009)

An expansion of SADP, the programme comprises of 2,700 farmers selected from the Trincomalee and Kilinochchi Districts. Farmers in these areas have access to more land than the farmers of SADP. Thus, cash crops are introduced and the beneficiaries are supported for two and a half years.



## SADP LITE (2010)

Introduced to assist 1,500 ex-LTTE Combatants (beneficiaries) by imparting agriculture-related vocational training at the request of the Ministry of Rehabilitation and Prison Reforms. This programme is conducted at Kandakadu government farm in the Polonnaruwa District. The duration of this programme is 12 months.



## **SADP MEGA (2011)**

**Initiated in Sooriyawewa, to boost the know-how of agricultural entrepreneurs in the Southern Region, the project comprises of a 12-acre organic model farm that imparts and showcases agri-techniques and best practices.**



## **SADP ULTRA (2013)**

**The project was launched in 2013 to introduce Leaf Farmers to better crop management techniques and to promote the growing of Other Field Crops. Spread across 07 Districts, SADP Ultra will benefit 4,100 individual Tobacco Farmers and over 16,000 beneficiaries in the inaugural year.**

NUMBER OF SADP FAMILIES BY PROJECT

- SADP - 8,115
- SADP Plus - 2,700
- SADP Lite - 1,449
- SADP Ultra - 4,100

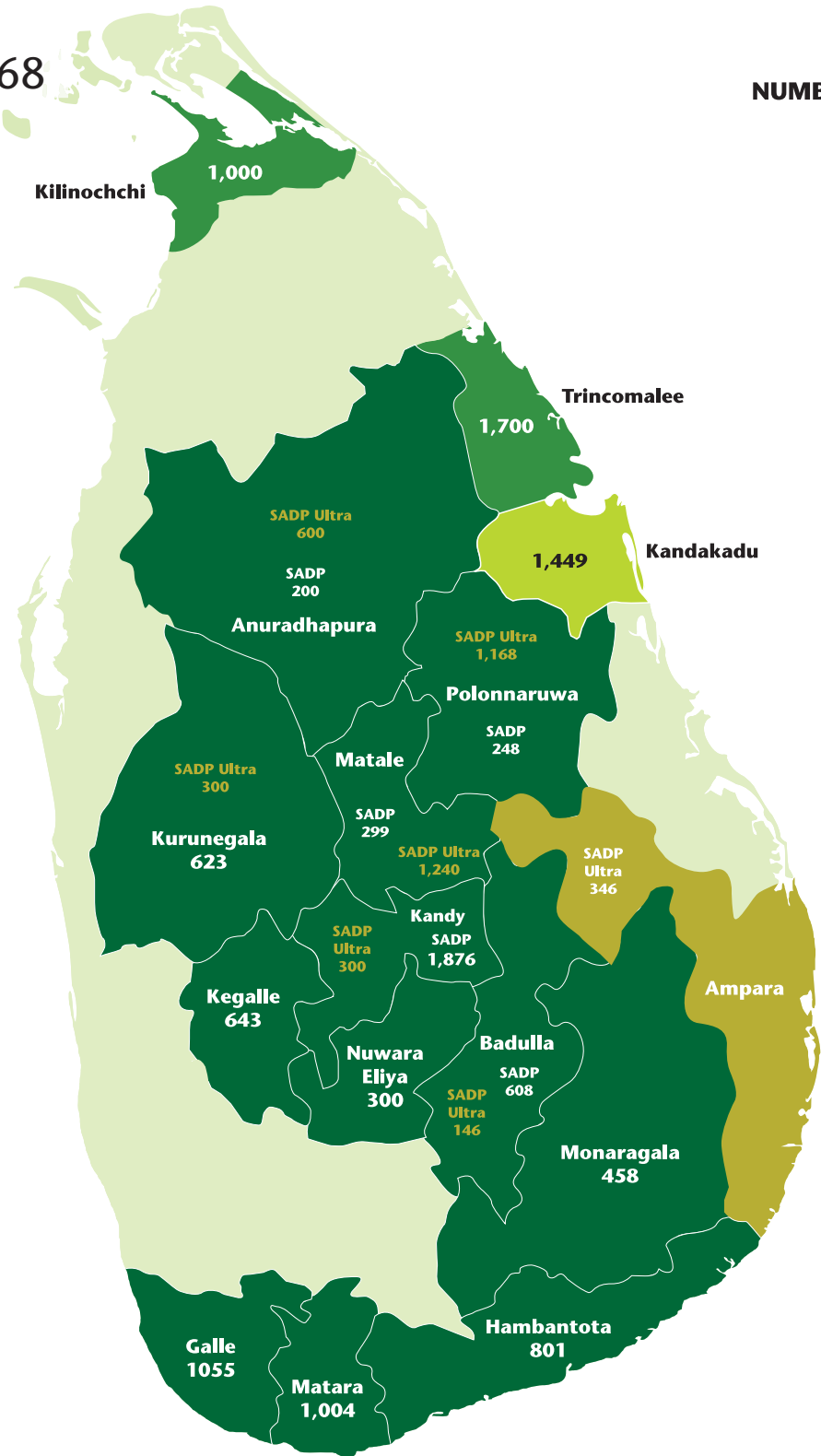
SADP FAMILIES BY DISTRICT

<b>SADP</b>	
Anuradhapura	200
Polonnaruwa	248
Kurunegala	623
Matale	299
Badulla	608
Kandy	1,876
Kegalle	643
Nuwara-Eliya	300
Monaragala	458
Hambantota	801
Matara	1,004
Galle	1,055

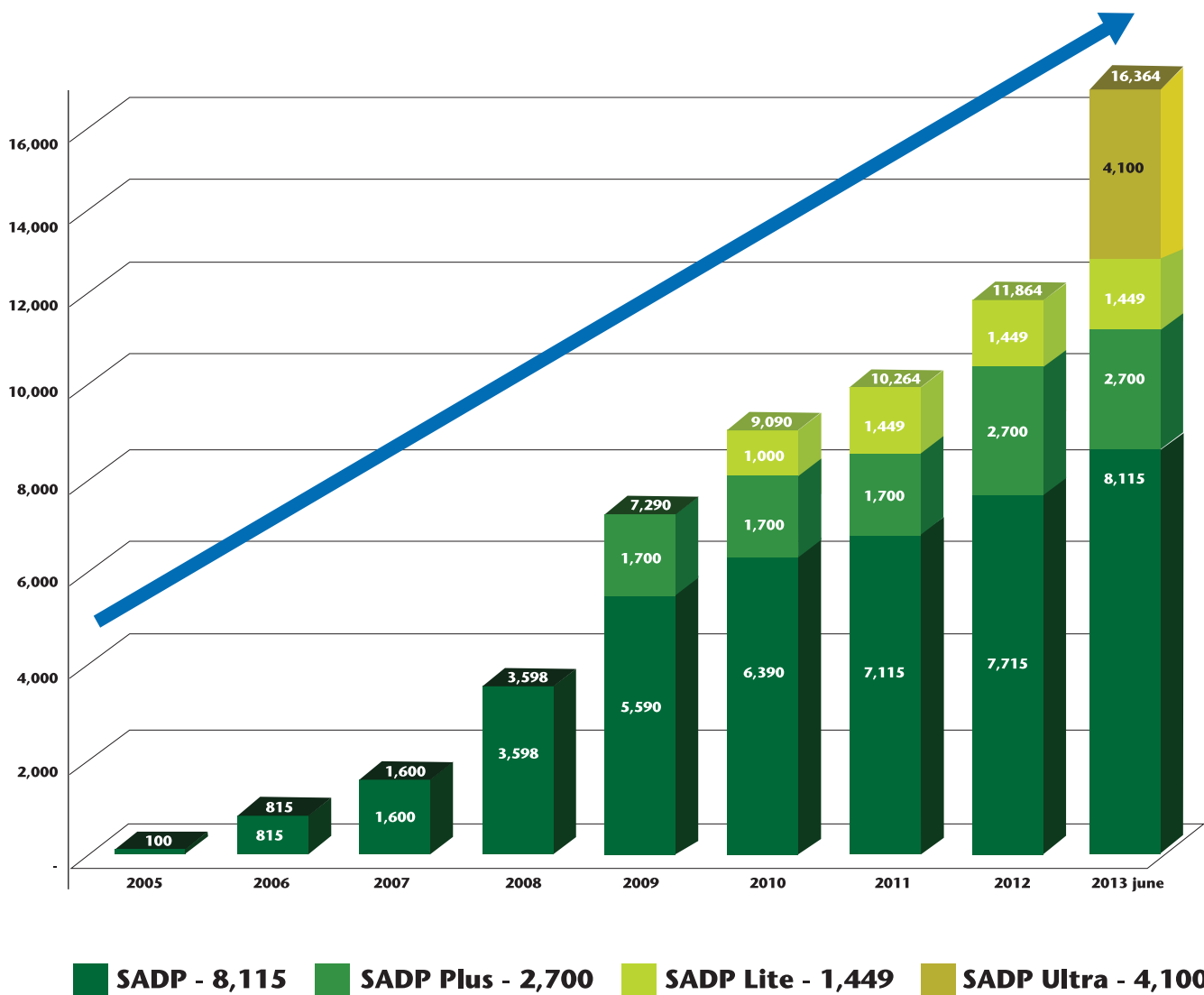
<b>SADP Plus</b>	
Trincomalee	1,700
Kilinochchi	1,000

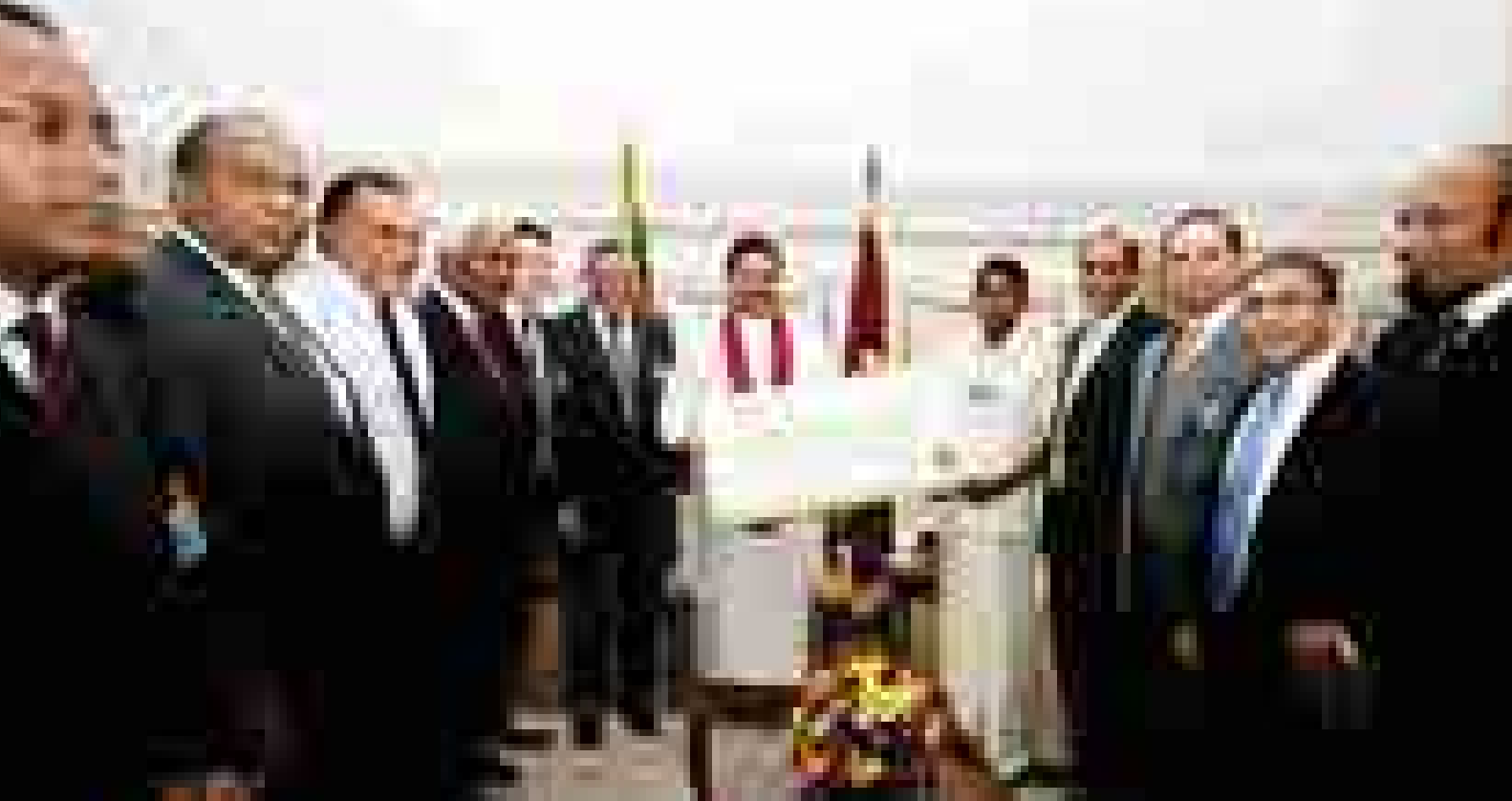
<b>SADP Lite</b>	
Kandakadu	1,449

<b>SADP Ultra</b>	
Matale	1,240
Polonnaruwa	1,168
Badulla	146
Ampara	346
Anuradhapura	600
Kurunegala	300
Kandy	300



# THE PROGRESS OF SADP





**D. M. Gamage Samarapala from Okawela, Tangalle, who became the 10,000th farmer to enrol in SADP, recieved his registration from His Excellency the President, Mahinda Rajapaksa, at temple trees in Colombo on 13th December, 2011.**

**FAMILIES EMPOWERED**

**16,364**

**BENEFICIARIES**

**62,442**

# PRODUCE AND INCOME GENERATED BY THE FAMILIES OF THE PROGRAMME

## YEAR 1

Vegetables	-	Rs. 92,928
Total annual income	-	Rs. 92,928
Monthly income	-	<u>Rs. 7,744</u>

## YEAR 2

Fruits & Vegetables	-	Rs. 111,936
Animal produce	-	Rs. 22,224
Total annual income	-	Rs. 134,160
Monthly income	-	<u>Rs. 11,180</u>

## YEAR 3

Fruits & Vegetables	-	Rs. 143,364
Animal produce	-	Rs. 26,244
Total annual income	-	Rs. 169,608
Monthly income	-	<u>Rs. 14,134</u>

**The produce from the home garden is used for their consumption and the excess is sold.**







GRI REPORT

# Committed

CTC remains committed to address its social, environmental and economic impacts in delivering value to every stakeholder and to do so in a transparent manner maintaining an open dialogue at all times.

## CTC's Triple Bottom Line Success



*Ceylon Tobacco Company PLC was recognized as one of the top ten corporate citizens of Sri Lanka by the Ceylon Chamber of Commerce at the Best Corporate Citizens Awards in 2013.*

*We went on to win the three category awards for 'Employee Relations', 'Project for Environmental Value Addition' and 'Financial Performance' a clear testament to our efforts to uphold the three pillars of sustainability - People, Planet and Profits.*

## Global Reporting Initiatives (GRIs)

Sustainability and good governance form the core of CTC's business operation; values and commitments that have endured over a century of excellence. As the industry is often perceived as controversial, we have always demonstrated our constant commitment to meet reasonable public expectations. CTC remains committed to address its social, environmental and economic impacts in delivering value to every stakeholder, and to do this through continuous engagement and dialogue. This commitment is aptly demonstrated by CTC being the first Sri Lankan corporate to publish its GRIs in a Sustainability Report in 2002.

In 2013 the Company formed a cross functional committee to bring together the relevant expertise in the areas pertaining to the indicators reported under GRIs. CTC also provided this team with training on the reporting methodology through an independent local organization, renowned as an expert on the subject. The Company has made every effort to share its performance over the last 3 years, where ever possible in order to present a comprehensive set of information to our stakeholders. In instances where accurate information is not available for comparative periods, the symbol 'N/A' has been presented.

The following report has been developed in accordance with criteria pertaining to "C" level of the Global Reporting Initiative Guidelines (GRI-G3). Please note that only the relevant indicators have been presented under the three main topics - Economic, Environmental, Social performance.

## Economic Performance

CTC is one of the largest listed companies on the Colombo Stock Exchange, and holds the distinction of being the largest contributors to government revenue. In 2013, CTC contributed Rs. 76.5 billion to state revenue, over a turnover of Rs. 89.4 billion.

Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and the government are listed below.

**EC 1. Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and governments**

Description	Performance		
	2011	2012	2013
	Rs. Mn.	Rs. Mn.	Rs. Mn.
<b>Value Generated</b>	<b>71,623</b>	<b>78,478</b>	<b>84,391</b>
Gross Revenue	76,151	82,770	89,455
Interest Income	380	646	735
Purchase Cost & Services	(4,957)	(5,033)	(5,849)
Other Operating Income	49	94	51
<b>Distribution</b>	<b>71,623</b>	<b>78,478</b>	<b>84,391</b>
State	63,670	69,095	73,940
Shareholders	5,414	6,950	7,530
Employees	1,187	1,016	1,007
Depreciation	196	190	304
Donations	16	8	9
CSR Activities	25	N/A	14
Lenders	Not Applicable		
Retained Profits	1,115	1,219	1,587

CTC supported Outreach Projects (Guarantee) Limited which drives the flagship CSR project, Sustainable Agriculture Development Programme (SADP). The cost incurred for the above project in 2013 was Rs. 49.6 Mn. while in 2012 and 2011, the cost incurred was Rs. 50.4 Mn. and Rs. 62.7 Mn. respectively.

**EC 3. Coverage of the organisation's defined benefit plan obligations**

The defined benefit plan obligation is governed by the Payment of Gratuity Act No 12 of 1983. The Company's obligation is covered by a gratuity insurance policy. Employees are eligible to participate in the scheme on completing one year of service and the right to receive payment on the completion of five years of service. The scheme is structured in two tiers, with employees who have worked less than five years receiving half a months salary for every year worked and receiving one months salary for every year worked on completion of five years. This is payable to employees on exiting the Company.

	(As at 31 December 2013)
Gratuity liability	Rs. 465.55 Mn.
Planned assets	Rs. 1,059.90 Mn.
Net surplus assets on defined benefit plan	Rs. 594.35 Mn.

**EC 5. Range of ratios of standard entry-level wage compared to local minimum wage at significant locations of operation**

Entry level wage is based at 75% rate of the market anchor regardless of the gender of the employee and common to all locations of the Company. Market anchors are determined through an annual salary survey conducted with a basket of selected comparator companies and are significantly higher than minimum wages at all grades.

**EC 7. Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation**

At CTC succession planning is applicable to all employees. Vacancies created at managerial entry-level are filled by the recruitment of Management Trainees, by way of placing internal and external advertisements. Following a stringent interview process, short-listed candidates undergo a competency test and are evaluated at a full-day assessment centre. Selected candidates then face the final interview.

Technical staff and Trade Marketing Executives (TME) are selected through a process of two rounds of interviews and an assessment centre. Specialised roles are filled through approved recruitment agencies. CTC currently has 48 Senior Managers, with 44 of them hired locally.

**EC 8. Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro-bono engagement**

**1. Sustainable Agricultural Development Programme (SADP)**

The Sustainable Agricultural Development Programme (SADP) is the flagship CSR project of the Ceylon Tobacco Company PLC. This project was initiated in 2006 with the objective to support poverty alleviation in Sri Lanka under the unique philosophy of 'helping those who are willing to help themselves'. The programme has since empowered over 66,400 beneficiaries in 16,364 families across 16 districts.

More information about this programme can be found on page 40 - the special SADP supplement attached.

**2. Sooriyawewa Relocation Programme**

CTC supported the rapid expansion in Hambantota district by building 07 houses for families that were relocated during other development projects.

**3. Construction of Weeraketiya Police Station**

At the request of the Ministry of Defence, CTC constructed the Weeraketiya Police Station in Hambantota district. The project was undertaken to strengthen civil administration in the area and is the third such facility built by CTC, the first two being in Mankulam and Kilinochchi.

# Environmental Performance

Concern for the environment is pivotal at BAT and pervades all its activities across the Group. At CTC we are proud to be a recognised leader in environmental and biodiversity protection, sharing our commitment, vision and best practices with the nation at large in order to create a sustainable contribution. We focus heavily on minimising energy and water consumption, improving our waste management and reducing our carbon footprint. Our environmental policy (please refer page 99) and procedures are geared to proactively engage and integrate environmental protection at every step of our business process.

CTC addresses its immediate and potential environmental impacts through a stringent form of impact assessment and performance management which is also aimed at improving efficiencies in the long term. The environmental policy is clearly communicated to all employees including contractual staff who are made aware of their responsibility to the environment. The policy is endorsed by our Managing Director and Chief Executive Officer to reflect the highest level of commitment the Company places on its environmental performance. The Executive Committee has overall responsibility to ensure the implementation of the policy and to monitor the Company's performance. This policy is also enforced upon any suppliers who engage with the Company with all suppliers briefed and encouraged to adopt our best practices.

## Materials

### EN 1. Materials used by weight or volume

Energy	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total materials used, including materials purchased from external suppliers and those obtained from internal sources (Metric Tonnes).	5,384	5,344	4,919	(8%)
Total weight of leaf used (Metric Tonnes).	3,625	3,598	3,298	(8%)
Total weight of non-renewable materials used (Metric Tonnes).	N/A	N/A	N/A	N/A
Total weight of direct materials used (Metric Tonnes).	1,759	1,746	1,622	(7%)

## Energy

### EN 3. Direct energy\* consumption by primary energy source

Energy	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total energy consumption (gigajoules).	41,898	44,294	43,341	(2%)
Total direct energy consumption by renewable primary source (gigajoules).	N/A	N/A	N/A	N/A
Total direct energy consumption in by non-renewable primary source (gigajoules).	41,898	44,294	43,341	(2%)
Direct energy used per million cigarette equivalent produced (gigajoules/mille).	4.80	5.51	5.16	(6%)

\* Direct non-renewable energy sources reported here include diesel, furnace oil, kerosene and petrol consumed by the Company in its manufacturing and transport activities. No direct renewable energy sources are used by the Company and therefore the notation 'N/A' has been presented. The total energy consumption reported here reflects the non-renewable energy consumption.

### EN 4. Indirect energy consumption by primary source

Energy	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total amount of indirect energy used by non-renewable and renewable sources in terms of intermediate energy (gigajoules).	43,267	44,422	42,450	(4%)
The corresponding primary energy consumed in its production (gigajoules).	N/A	N/A	N/A	N/A
Indirect energy used per million cigarette equivalent produced (gigajoules/mille).	4.96	5.52	5.05	(9%)

\* Indirect energy used in terms of intermediate energy includes the amount of electricity consumed by the Company in its manufacturing and commercial activities.

## Water

### EN 8. Total water withdrawal by source

Water	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total volume of water withdrawn from any water source that was either withdrawn directly by the reporting organization or through intermediaries such as water utilities-municipal water (cubic meters).	47,669	46,045	44,739	(3%)
Total water used per million cigarette produced (cubic meters/ mille).	5.47	5.72	5.33	(7%)

## Emissions, Effluents and Waste

### EN 16. Total direct and indirect greenhouse gas emissions by weight

Emissions, effluents and waste	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total greenhouse gas emissions as the sum of direct and indirect emissions (tonnes of CO <sub>2</sub> equivalent).	4,217	4,509	4,439	(2%)
Total greenhouse gas emissions per million cigarettes produced (tonnes of CO <sub>2</sub> /mille).	0.48	0.56	0.53	(5%)

### EN 19. Emissions of ozone-depleting substances by weight

All air-conditioning and refrigeration systems have been converted to F134A standard. Therefore the Company does not emit significant amounts of ozone depleting substances in its operations.

**EN 21. Total water discharge by quality and destination**

Emissions, effluents and waste	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total volume of planned and unplanned water discharges per year by destination - municipal (cubic meters).	26,198	24,521	22,917	(7%)

**EN 22. Total weight of waste by type and disposal method**

Emissions, effluents and waste	Performance			% Change (2013 Vs. 2012)
Description	2011	2012	2013	
Total amount of waste (non-hazardous) sent for composting (Metric Tonnes).	N/A	N/A	N/A	N/A
Total amount of waste (non-hazardous) reused (Metric Tonnes).	CTC reuses 70% of tobacco from machine rejected cigarettes during the manufacturing process.			
Total amount of waste (non-hazardous) sent for recycling (Metric Tonnes).	481	298	439	47%
Total amount of waste (non-hazardous) sent for recovery (Metric Tonnes).				
Total amount of waste (non-hazardous) sent for incineration (Metric Tonnes) -handed over to Geocycle Sri Lanka for co-processing.	201	174	173	(1%)
Total amount of waste (non-hazardous) sent for landfill (Metric Tonnes).	-	69	70	1%
Total amount of waste (non-hazardous) sent for deep well injection (Metric Tonnes).	N/A	N/A	N/A	N/A
Total amount of waste (non-hazardous) sent for on-site storage (Metric Tonnes).	N/A	N/A	N/A	N/A
<p>How the method of disposal has been determined:</p> <p>Primary waste segregation is carried out at the point of generation while a secondary segregation is conducted at the waste collection and storage bay. The weights/quantities of waste are recorded and reported on a monthly basis. Around 90% of the Company's solid waste is sold to recyclers who are registered with CTC. The tobacco waste is collected separately and sent to Geocycle Sri Lanka for co-processing. Geocycle issues CTC a certificate of assurance detailing the quantity of waste incinerated to produce energy.</p>				

**EN 23. Total number and volume of significant spills**

There have been no significant spills, emissions or effluent discharges over the past three years.

## Compliance

**EN 28. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations**

There have been no fines or levies imposed on CTC for non-compliance to environmental laws or regulations over the past three years.

## Social Performance

Our continued success is dependent on a talented group of people who drive the Company towards exceptional heights in partnership with a diverse value chain providing livelihoods to over 60,000 Sri Lankans. CTC has forged a solid reputation as one of Sri Lanka’s leading corporates, a much sought after employer; rising above an increasingly competitive market.

The Company adopts a dynamic and open culture that encourages change and innovation, inspiring people to achieve their potential and be rewarded for their success. We focus on driving high performance, developing the next generation of leaders, celebrating and valuing the diversity of our employees, encouraging and rewarding entrepreneurial spirit and creating an engaging and winning culture.

Providing a safe place to work, protecting our employees’ well-being and listening to their views are considered fundamental. CTC is dedicated to provide equal opportunities to all, ensuring no discrimination during hiring, promotions or even at the point of retirement. ‘Your Voice’ is our employee opinion survey that we conduct every two years to measure employee satisfaction and engagement, which are then translated into meaningful action across the board, with solutions often driven by the staff.

## Labour practices - Employment

LA 01. Total workforce by employment type, employment contract and region

Employee Category	Year		
	2011	2012	2013
Permanent employees	282	278	287
Direct contract employees	70	75	88
3rd party contractors	N/A	N/A	333
Seasonal workers	57	58	55
National secondments overseas	10	14	15
Secondments within the country	5	5	6

## LA 02. Total number and rate of employee turnover by age group, gender and region

The employee turnover of the Company in 2013 was 5.9%. Technology improvements and adopting best practices has resulted in creating opportunities to maintain a fewer number of multi-skilled employees rather than a large number of unskilled personnel. The net employee creation is given below.

- The total number of employees in the reporting year minus the number of employees in the previous year (in 2013) : 9
- Total turnover (in 2013) : 17
- Rate of turnover (in 2013) : 5.9%
- Employee turnover by age :

Age Category	2013
20-25	4
26-30	6
31-35	3
36-40	1
41-45	1
46-50	2
51-55	0
>55	0

- Employee turnover by gender

	2013
Male	13
Female	4

**LA 03. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations**

Benefits offered by the Company to its full time employees are documented in the HR policies and include:

- Reimbursement of employee education expenses
- Financial assistance for undergraduate education extended to children of employees
- Medical and health care (to employees and family)
- Funeral assistance (to employees and family)
- Loan schemes at subsidised interest rates (eg: car, housing)
- Preferential provident fund and gratuity
- Higher annual leave
- Holiday bungalows
- Transport and other allowances

The rewards and the benefits offered to temporary and part time employees are determined by market norms.

## Labour / Management Relations

**LA 04. Percentage of employees covered by collective bargaining agreements**

Only the non-executive workforce is covered by the collective agreement and 100% of their population is covered. Percentage of the employees covered by collective agreement compared with the total number of employees are as follows:

Year	As a % of the total staff members
2011	38.08%
2012	38.13%
2013	37.98%

**LA 05. Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements**

No minimum notice period is specified. However, upon a need for such agreement, the time period with regards to implementation of changes in operations is mutually agreed between management and the union.

Health and safety

**LA 06. Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes**

Environment Health and Safety (“EHS”) is overseen by a Steering Committee which includes cross-functional representation and is headed by the Supply Chain Director. The steering committee meets on an annual basis and EHS KPIs are monitored at this meeting.

EHS Committees have also been set up at departmental level to represent the entire workforce. The membership includes managers, executives and shop floor employees. EHS is a key agenda point at the Executive Committee meetings where the progress of EHS related programmes and KPIs are monitored on a quarterly basis.

**LA 07. Rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities**

Description	Performance		
	2011	2012	2013
For the year	0	0	0
Rate of injury	0	0	0
Number of lost working days	0	0	0
Number of work related fatalities	0	0	0
Occupational disease	0	0	0

The Company has maintained a zero lost workday case (0 LWC) record for 14 years at its Colombo factory while maintaining 10 years in trade marketing and 4 years in its Kandy plant.

**LA 08. Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases**

As a corporate leader in Occupational Health and Safety we focus on pro-actively identifying hazards, assessing risks to our people’s health while at work and introducing appropriate mitigation measures to control these risks. The Company has introduced programmes to protect and promote the health and well-being all its employees, their families even extending at times to local communities.

**LA 09. Health and safety topics covered in formal agreements with trade unions**

Members of the worker’s union are present in our health and safety committees; however, this is not represented in any formal agreement with trade unions. The Collective Agreement refers to the standing orders which govern employee conduct and expectations. The standing orders cover EHS and employee responsibility for EHS. Our health and safety policy (please refer page 101) clearly states that every employee regardless of their level must comply with the Company’s health and safety standards while carrying out work on behalf of CTC.

CTC has its own medical centre with a full-time doctor, two nursing staff and a pharmacist. All permanent employees are regularly checked for their health conditions and appropriate treatment is recommended. All non-permanent CTC employees too have access to the medical centre. All information with regard to employees’ medical records is maintained in a secure and confidential manner.

**LA 10. Average hours of training per year per employee by employee category**

The training provided to the employees by the Company in the year 2013 are as follows,

Employee Category	Year		
	2011	2012	2013
Average hours of training per employee for the entire Company	43.7	35.03	67.63
Management	28.53	14.49	7.31
Executives	33.44	14.3	9.43
Technicians/multi skilled operators	60.82	73.49	175.87

Due to TaO implementation many local programmes applicable to executive and management cadre were postponed to 2014.

Due to knowledge drain as a result of retirements, a higher number of training programmes were conducted for technicians/multi skilled operators in 2013.

**LA 11. Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings**

The Company strives to energise its employees and ensure they have the capability and skills required to achieve our vision. All training at CTC is non-binding and includes assistance for self-learning through the Self Study Assistance Scheme, Learning Centre, obtaining of professional membership and business awareness programmes to all employees.

The following training programmes took place during the year 2013.

1. Leading Self (Leadership Program for Entry Level Managers)
2. Enhancing Analytical Skills
3. Creative Thinking workshop
4. Leading Managers Workshop (Leadership programme for Senior Managers)
5. Assessor Skills
6. Business Awareness Program (BAP)

The Company does not conduct any formal programmes to assist employees in managing career endings. However when the need arises, mentoring and coaching programmes are conducted on an individual basis.

**LA 12. Percentage of employees receiving regular performance and career development reviews**

All employee performances are reviewed annually

- Management cadre - Career Development / Career Succession Planning reviews are conducted twice a year through the Talent Review Process
- Executive cadre - talent review process is conducted once a year.
- Non-executive - career development review is conducted once a year.

## Diversity and Equal Opportunity

**LA13. Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity**

➤ Employee per category according to gender

	Year			
	Management (including G33 and MT's)	Executives	Clerical	Shop Floor
Male	90	65	10	99
Female	18	05	0	0

➤ Employee per category according to age

Age Category	Year			
	Management (including G33 and MT's)	Executives	Clerical	Shop Floor
20 - 25	1	10	1	8
26 - 30	26	27	2	14
31 - 35	31	4	0	7
36 - 40	10	7	0	13
41 - 45	16	6	0	6
46 - 50	7	6	1	24
51 - 55	17	10	6	27
55<	0	0	0	0

Data is provided for permanent employees only.

➤ Employee per category according to service

Number of Years' service	2013			
	Management (including G33 and MT's)	Executives	Clerical	Shop Floor
0 - 5 Years	45	40	3	22
6 - 10 Years	21	9	0	12
11 - 15 Years	15	5	0	17
16 - 20 Years	4	2	0	1
21 - 25 Years	3	7	0	9
26 - 30 Years	9	3	5	31
>31 Years	11	4	2	7

**LA 14. Ratio of basic salary of men to women by employee category**

For all employee categories the ratio of basic salary of men to women is 1 : 1

## Human rights - Strategy and management

**HR 04. Total number of incidents of discrimination and actions taken**

No incidents of discrimination have been reported during the last three years. The CTC Industrial Relations policy states that:

"Services of no employee will be terminated due to HIV or any other sickness, subject to our premature retirement policy. Employment will be provided to partially disabled persons depending on the requirement and the nature of the work. Any persons prior to recruitment or once employed will be treated equally, irrespective of their sex, age, race, religion etc."

**HR 08. Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations**

All inquiries and disciplinary matters are dealt within statutory labour laws and in accordance with the Collective Agreements between CTC and the Trade Unions. Relevant security personnel handling these inquiries are trained by the Company to ensure that they are done in accordance with the Company policies taking into consideration the human rights that are relevant to the operations. However these personnel have received no specific training on human rights.

While relevant induction training is given for security staff as per training modules on initial employment, refresher training is conducted biannually for security officers. All security executives are ex-police officers and are refreshed on investigating and carrying out inquiries which is conducted by the Employer's Federation of Ceylon (EFC) in keeping with all aspects of human rights.

**HR 09. Total number of incidents of violations involving rights of indigenous people and actions taken**

Description	Year		
	2011	2012	2013
Total number of incidents of violations involving rights of indigenous people and actions taken.	Nil	Nil	Nil

Society – Community

SO 01. Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting

1. Sustainable Agricultural Development Programme (SADP)

An independent study on SADP conducted in early 2013, revealed that on average at the end of stage one, the contribution to total household income from SADP was 33%. The figures reported for stages 2, 3 and 4 are 41%, 47% and 43% respectively.

Income	SADP Families			
	Base line (0-12 months)	Mid line (13-24 months)	End line (25-30 months)	Graduated (30+ months)
Average Monthly Income without SADP	Rs.15,592	Rs.15,637	Rs.15,637	Rs.15,637
Average Monthly Income from SADP	Rs.7,744	Rs.11,180	Rs.14,134	Rs.11,912
Average Total Monthly Income	Rs.23,336	Rs.26,817	Rs.29,771	Rs.27,549
Contribution to Total Household Income from SADP(%)	33%	41%	47%	43%

Meanwhile, the study further revealed significant improvements in a family’s daily nutritional intake after joining SADP. The produce from their home gardens have improved a family’s overall daily nutritional intake with significant increases in protein, vitamin, calcium and iron.

Per day calorie intake	Recommended daily allowance	Base line	Mid line	End line	Graduated
Energy (Cal)	3000 Cal	0.86	0.89	0.95	0.99
Protein (g)	55g	0.94	1.19	1.27	1.17
Fat (g)	65g	1.15	1.27	1.29	1.10
Carbohydrate (g)	300g	1.70	1.78	1.88	1.66
Calcium (mg)	600mg	0.69	0.99	0.91	1.14
Iron (mg)	25mg	0.82	0.93	0.99	1.11
Retinal (µg)	750(µg)	0.23	0.36	0.42	0.38
b-Carotene (µg)	3000(µg)	0.78	1.55	1.59	1.57
Vitamin C (mg)	50mg	1.66	4.21	4.59	4.01


\*\*Based on the Recommended Daily Allowance figures of WHO (Word Health Organization)

Formula

=





Per capital nutrient intake

RDA



"1" is ideal

The overall study of the project can be concluded as follows;

Objectives	Result	
Providing a balanced meal	Achieved in line with WHO Standards	
Increasing the level of agricultural knowledge	Achieved	
Female empowerment	Achieved 95%	
Maximum Land Utilisation	Achieved 94%	

**SO 05. Public policy positions and participation in public policy development and lobbying**

By statute, there is no requirement to seek public opinion. Only when public policy is legislated can the general public, including CTC, make observations or suggestions. Given the controversial nature of our business we often face certain issues and negative publicity.

We are committed to responsible and transparent engagement with the government and in the course of normal business, we consult officials in the spheres of Health, Treasury, Customs, Agriculture and other areas. This commitment is embodied in BAT’s Statement of Business Principles. Our stance on engagement is consistent and in line with all internal policies and sustainability agendas.

## Product responsibility - Customer health and safety

**PR 01. Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures**

The concept of harm reduction is increasingly considered in relation to tobacco use and is a key element of our business strategy and product development at BAT. Risk awareness among consumers is reinforced by the health warnings placed on all tobacco products as required under the consumer protection laws in Sri Lanka.

In accordance to BAT's International Marketing Principles, we follow the below principles when engaging in all marketing activities, ie. We do not mislead the public about the risks of smoking, we only market our products to adult smokers, we are transparent in all our dealings and we do not influence consumers about whether or how much to smoke.

In the context of possible product deterioration or contamination, we follow a stringent approach to assuring product integrity. This seeks to minimise the risk of product integrity issues through risk assessment and controls of our products, design and supply chain and to ensure appropriate response capability should an issue arise through incidents within or beyond our control.

## Product Labelling

**PR3 - Type of product information required by procedures, and percentage of significant products subject to such information requirements.**

While our Internal Marketing Principles (IMPs) require the display of health warnings on all packaging, we are also compliant with all existing laws and regulations including consumer protection laws which mandate cigarette manufacturers to carry the government textual health warning on all packs. As per the NATA Act, the Company also complies with the requirement to display tar and nicotine contents on all tobacco products.

In 2012, regulations were introduced through a Gazette under the NATA Act providing for a 80% graphic health warning requirement, descriptor ban, date of manufacture on sticks and a contents label. The Company instituted litigation in the Court of Appeal against these regulations based on its legality and the practical impossibilities of implementing the same. The case is ongoing and at the time of this report the Company has obtained a stay order suspending the implementation of the regulations until the said case is concluded.

**PR 06. Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship**

Since the introduction of the NATA Act in 2006, significant resources have been deployed by the Company to ensure adherence to the letter and spirit of the Act. All employees and valued business partners of the Company are continuously educated on the Act.

In addition, the Company follows BAT's International Marketing Principles when engaging in all marketing activities. In 2012, BAT updated the previous International Marketing Standards (which have been in place since 2001) to reflect developments in marketing, technology, regulation and stakeholder expectations. We have reviewed and adjusted our marketing activities accordingly and achieved full implementation by February 2013.

Our four key marketing principles are: We will not mislead the public about the risks of smoking; We will only market our products to adult smokers; We will not seek to influence consumers about whether or how much to smoke and it should always be clear that our marketing comes from a tobacco Company and it is intended to promote the sale of our brands. For more information, please refer the section on "Consumer and Trade" on our BAT website - [www.bat.com](http://www.bat.com)

We continue to engage with stakeholders on a wide range of topics relevant to our products including youth smoking, illicit trade and regulations. We work with retailers, international organisations and law enforcement agencies on preventing underage smoking, curbing illicit trade and other areas of concern.



## Environmental Policy

Ceylon Tobacco Company, 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 organization 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 minimize 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 organization
- 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 organization will take reasonable care of the Environment under our control and co-operate fully with the Company in all environment related matters.

**Felicio Ferraz**  
Managing Director & CEO  
Ceylon Tobacco Company PLC

09 April 2013



## Biodiversity Statement

We recognize 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 business principle of Good Corporate Conduct, we aim to minimize our impact on biodiversity and the wider environment. Part of this commitment means avoiding, minimizing 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 organizations, 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, minimize, 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 minimizing 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 and Safety (EHS) Policy and guidelines
- Agronomy guidelines
- Social Responsibility in Tobacco Production (SRTP) Policy and guidelines
- Business Enabler Survey Tool (BEST)

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

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

**Felicio Ferraz**

Managing Director/CEO  
Ceylon Tobacco Company PLC

18 September 2013



## Health & Safety Policy

Ceylon Tobacco Company, 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 and 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 and 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 and safety in so far as reasonably practicable
- Effectively control workplace health and safety risks through hazard identification and risk assessment and initiate actions to mitigate significant risks
- Continuously seek to conform with best international health and safety standards in line with Business Objectives.

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

**Felicio Ferraz**

Managing Director & CEO  
Ceylon Tobacco Company PLC

09 April 2013













# Most preferred

## *People and Culture*

CTC invested over

**1,480**

hours of training covering 50% of its staff in 2013.

# Building a Legacy of Leaders



Ceylon Tobacco Company PLC has constantly embraced a progressive vision towards its people; to empower and advance an exceptional team that would power a Winning Organisation. Throughout its century of existence, CTC has harnessed these values to produce an accomplished and empowered workforce – a Legacy of Leaders, driving the Company towards unparalleled levels of success. For decades, the Company has established itself as one of Sri Lanka's most preferred employers, a position of pride we will retain for decades to come.

Our HR mission is to become a "Centre of Talent" for BAT. Drawing upon the resource and reach of the wider BAT family, CTC is constantly giving opportunity to our key talent to gain exposure in foreign markets to prepare them for leadership roles across the globe. Our focus is not restricted to our executive talent; it extends to all levels of staff including our field and factory workforce – some of who have received training and completed work assignments in regional markets. We are steadfast in our commitment to

*We are steadfast in our commitment to provide the very best in training and development and it is this philosophy that has enabled us to build our team of world-class professionals.*

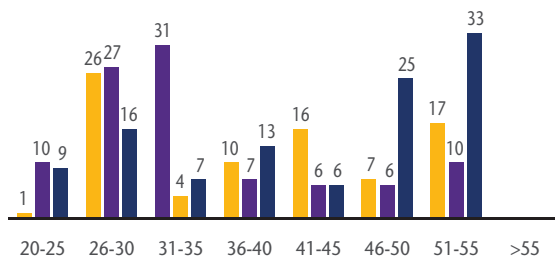
provide the very best in training and development and it is this philosophy that has enabled us to build our team of world-class professionals. This focus continued throughout 2013, with over 1,480 hours of training that covered over 50% of our workforce. CTC placed 15 of its key talent on international exchange programmes during the year, preparing them to take on wider challenges in key roles across the Group.

In addition, one of the key initiatives during the year was readiness to implement TaO – the new common operating process across the Group. Sri Lanka was one of the first key 'Crop to Consumer' markets in the Group to 'go live' with TaO, and the Company invested significantly in training all our employees on this programme to transform the organisation. The CTC team invested 43 working days covering 11 daily sessions of TaO training on new processes and technology, effecting a smooth transition to the new way of working and the new SAP ERP system which went live in January 2014. In conjunction to TaO readiness, CTC hosted a number of leadership training programmes throughout the year, where we took the opportunity to invite participants from BAT's operations in the South Asia Area.

**Age Profile**

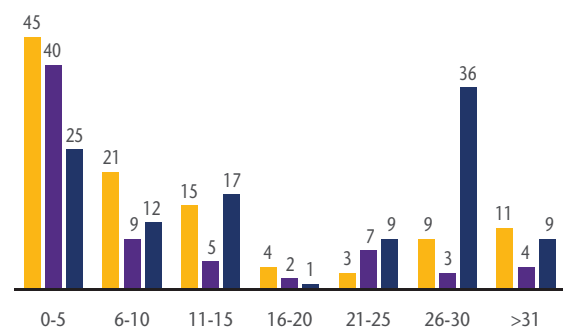
(Number of permanent employees)

■ Management ■ Executives ■ Non Management

**Service Profile**

(Number of permanent employees)

■ Management ■ Executives ■ Non Management



*One of the key initiatives during the year was readiness to implement TaO - the new common operating process across the Group.*

'BRING IT ON' was another innovative programme implemented this year to drive motivation, a winning mindset and personal development, embedding our Guiding Principles amongst the CTC team. The Company divided its entire workforce, including regional, field and factory staff, into four teams who were presented with numerous challenges involving a market-related volume drive, social responsibility initiatives and staff welfare. Our staff volunteered over 2000 man hours for diverse CSR projects over the past year. Our regular people engagement events too were channelled under the 'BRING IT ON'



CTC's People processes were recognized with the Award for "Best Employee Relations" amongst Sri Lanka's Best Corporate Citizens

## Building a Legacy of Leaders contd.



*Colombo Champs emerged overall Champions at CTC's annual sports meet in 2013*

theme, driving better synergies across functions and levels, exemplifying a spirit of equality and creating stronger interactions among all our staff.

As a preferred employer with significant repute for best employee relations, the Company has enhanced its public presence through partnerships with and contributions to numerous Human Resource Management councils and related institutions. We are constantly on the look out to share our best practices to build a cohesive and effective Human Resource ethos amongst local industry. The popular summer internship programme for undergraduates, FastTrack 15, has grown into an effective vehicle to channel this resource. In its third year of operation, FastTrack 15 is conducted in partnership with John Keells Holdings and

HSBC. The quality and reach of the programme has helped us establish FastTrack 15 as one of the most sought after summer internships in Sri Lanka amongst both local and foreign university undergraduates. In order to strengthen our employer brand, CTC has also enhanced its presence at public career fairs, higher education and professional institutes and universities, which has resulted in the growth of the value of the employer brand, as well as, giving us access and opportunity to attract key talent from across diverse sectors in the country.

During the year under review, the Company successfully completed negotiations and formalised its collective agreement with the industrial unions. CTC has long served as the benchmark for industrial relations in Sri Lanka, and we

*We are constantly on the look out to share our best practices to build a cohesive and effective Human Resource ethos amongst local industry.*

are proud to carry this mantle forward with further effective productivity enhancements achieved through the collective agreement. The Company has done so with no lost work days due to industrial action and with the fullest cooperation of the unions, who are progressive in their thinking and support the organisation in its every effort.

Our employees are encouraged to meet with senior management to discuss any matters of concern or grievance. Whilst they are empowered to escalate any matters to the Chief Executive Officer, the Company has also established a code of conduct and a whistle blowing policy which encourages our team to report on any matters of concern in a confidential and professional manner. All our HR business partners and departmental heads have received training on dispute resolution.

The Company's excellence in people management was recognised by the Ceylon Chamber of Commerce, when it presented the Award for "Best Employee Relations" amongst Sri Lanka's Best Corporate Citizens to CTC. The true test of the value of our employer brand comes from within – our employees. To date, CTC enjoys one of the lowest staff turnover rates versus benchmarks.

CTC is proud of the unique culture it has nurtured for its team which is founded on open communication and its penchant for development and excellence. The Company



*TaO Readiness - CTC hosted several leadership training programmes in 2013*

practices an open door policy where all levels have access to their line managers and the Executive Committee. We have even introduced informal forums amongst staff including the Managing Director and Chief Executive Officer and the rest of the Executive Committee to encourage an open exchange of ideas. In 2013, the Company invested heavily in team building activities across all departments to foster better teamwork and understanding of shared objectives. The Company has also enhanced its presence in the mercantile sporting arena with significant performances in cricket, rugby and swimming.

CTC's human resource philosophy is based on inclusion and empowerment; two facets that have grown hand-in-hand to deliver the best to a team of exceptional individuals continuously driving the organisation towards unprecedented heights. We are committed to build a "Great Place to Work" fuelled by a team of motivated individuals ready to take on the challenges and opportunities prevalent in the market.



## Our Teams



The Food, Beverages and Tobacco Industries Employees' Union (FBTIEU) -  
Ceylon Tobacco Company Colombo Branch



The Security Union



The Ceylon Mercantile, Industrial and  
General Workers' Union (CMU)



The Food, Beverages and Tobacco Industries Employees' Union (FBTIEU) -  
Ceylon Tobacco Company Kandy Branch



The Barn Owners' Association



# Most preferred

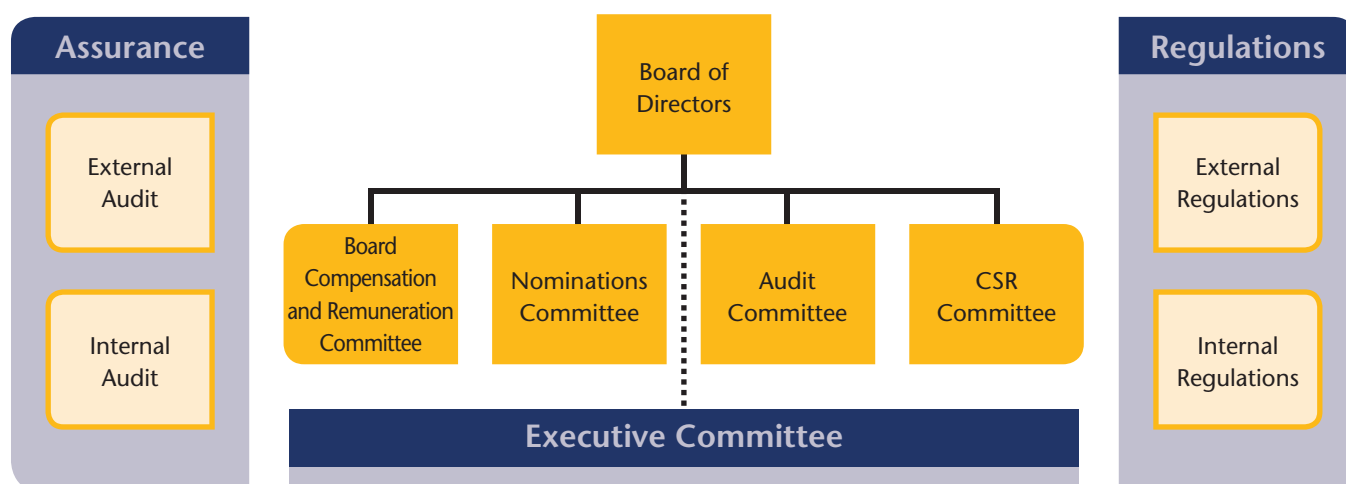
## *Corporate Governance*

We continued our uncompromising quest to deliver assurance while fuelling sustainable growth in 2013



# Corporate Governance

## The Governance Model



Ceylon Tobacco Company PLC considers Corporate Governance as an uncompromised quest to deliver assurance and comfort to both internal and external stakeholders. Whilst pursuing this philosophy, corporate governance is no more considered as compliance to a regulatory framework, but a critical enabler in delivering sustainable growth in shareholder value. Corporate Governance in CTC ensures a favourable balance between performance and conformance by reflecting honesty, transparency and accountability. These aspects are clearly embedded in our Standards of Business Conduct (SoBC), which is reviewed periodically to ensure that they remain fit for purpose and at the forefront of best business practices.

## The Governance Model

### Role and Composition of the Board

The Board is responsible to the Company's shareholders for the performance of the entity, its overall strategic direction and governance. The Board gives direction to the long term strategy, seeking and contributing views and opinions on strategic options proposed by the Executive Committee. All members of the Board have the fiduciary duty and statutory obligation regardless of whether they are Executive or Non-Executive Directors.

The Company currently has a Board of 7 Directors; the Chairman, 2 Executive Directors – the MD and Chief Executive Officer, the Finance Director and another 4 Non Executive Directors. Their profiles appear on pages 18-19. A balance of Executive and Non-Executive member representation on the Board ensures impartiality. The Nominations Committee selects individuals who are independent with capabilities and their potential to contribute to the Company, Non-Executive Board members perform an important role in providing an external perspective to the business. All Directors make a formal declaration of all their interests on annual basis and 3 Non-Executive Directors have been declared by the Board as Independent Non-Executive Directors as per Corporate Governance best practice rule 7.10.4 of continuing listing requirements of the CSE.

The position of the Chairman and the CEO are kept separate in line with good governance practice. All meetings of the Board and the sub-committees were well attended during the year. All Board members have specific responsibilities in controlling and setting direction through the various Board Committees.

## Board Committees

The Board, as a body, is fully and equally accountable to shareholders for governance, operations and assets of the Company including the preparation and presentation of financial statements in accordance with Sri Lanka Accounting Standards. The Board appoints some of its members to serve on sub-committees of the Board with specific responsibilities. These being; Nominations Committee, Audit Committee, Board Compensation and Remuneration Committee and CSR Committee.

### Nominations Committee

The Nominations Committee is chaired by the Chairman of the Company. The role of the Nominations Committee is to make recommendations to the Board on suitable candidates for appointment to the Board ensuring that the Board has an appropriate balance of expertise and ability. In assessing Non-Executive members, the Committee analyses a potential nominee to determine the level of knowledge infusion to the business and independence from material relationship or dependence; be it direct or indirect, personal or through business affiliations. All Director's interests in contracts are reviewed for materiality and disclosed to shareholders for full transparency.

### Audit Committee

The Audit Committee is chaired by an Independent Non-Executive Director. The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance, integrity of financial statements as well as the conduct of business in accordance with the Standards of Business Conduct of British American Tobacco Plc (BAT). Please refer pages 136 - 137 for the Statement of the Chairperson of the Audit Committee.

### Board Compensation and Remuneration Committee

The Board Compensation and Remuneration Committee is chaired by the Chairman of the Company. The Committee determines the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors and the Executive Committee. Please refer page 138 for the Report of the Board Compensation and Remuneration Committee.

## CSR Committee

The Committee is chaired by the Chairman of the Company. The Committee meets periodically to review the CSR activities of the Company and to monitor alignment with the Statement of Business Principles. Its primary focus is to ensure that the CSR activities are appropriate and effectively managed.

## Appointments and Re-election to the Board

The Chairman is elected for a term of 5 years and the Directors are appointed for a term of 3 years subject to re-election for another term of 3 years. One-third of the Directors, retire by rotation on the basis prescribed in the articles of the Company. A director retiring by rotation is eligible for re-election by a shareholder resolution at the Annual General Meeting. All directors are subject to election by shareholders at the first AGM after their appointment. A comprehensive induction programme is conducted for newly appointed Directors of the Company.

## Performance of the Board

Annually, the performance of the Board members is reviewed against the recommended checklist of the Institute of Chartered Accountants of Sri Lanka. This is complemented with the Audit Committee Effectiveness Checklist that seeks to review the independence and effectiveness of the Audit Committee.

## Standard of Business Conduct

Operating under the guidance of Standard of Business Conduct (standards) for a number of years, the Company has embedded the standards in the day to day functioning of the organisation using clear, relevant and consistent communication to all employees across the organisation; Addressing areas such as whistle-blowing, personal and business integrity, public contributions, corporate assets, financial integrity, national and international trade. The standards demand compliance at all levels through sign-off from each and every employee. The whistle-blowing procedure enables the staff to raise their concerns whilst ensuring confidentiality.



## Corporate Governance contd.

### Compliance Control

Self-assessment against policies and key controls is conducted regularly at CTC. Policies relating to rights and privileges of personnel, whistle-blowing, information and IT security are clearly laid out and communicated to staff at all levels. The security and safety of staff is a key priority. Our employment principles for which compliance is monitored includes: fairness and dignity at work, standards of business conduct and performance and environmental responsibility.

### Compliance with National Laws and Regulations

National Laws and Regulations have been scrutinised and categorised in a manner in which each department is able to ascertain which legal requirements are specific and relevant to their operations. The compliance document is also signed-off by the legal department. This ensures compliance at operational level. A checklist of regulatory payments such as Employees' Provident Fund (EPF), Employees' Trust Fund (ETF), Excise and Sales related taxes is tabled for review as a part of the Audit Committee agenda.

### Risk Review and Management

The risk profile of the Company is collated centrally, through sub processes of risk review with the Heads of Functions taking ownership for risk management (this process is further explained in the section on Risk management). Each function has a set of defined key controls, now established in the form of a checklist, called the Control Navigator. Each function is responsible for ensuring that there is compliance against these key controls which is checked by internal audit periodically.

The Company conducts induction, awareness and training programmes for managers and executives to increase the awareness of the key principles of risk management, internal controls and corporate governance.

**Attendance at Board and Board Committee Meetings**

Name	Board	Audit Committee	Nominations Committee	Board Compensation and Remuneration Committee	CSR Committee
Jayampathi Bandaranayake * (Retired w.e.f. 28 March 2013)	01/04 +		01/01 +	01/01 +	
Felicio Ferraz (Appointed w.e.f. 01 March 2013)	03/04	01/02 ^	01/01	01/01 ^	01/01
James Yamanaka (Retired w.e.f. 01 March 2013)	00/04	00/02 ^			
Ariful Islam	04/04	02/02 ^			01/01
Desamanya Deva Rodrigo ** (Retired w.e.f. 28 March 2013)	01/04	01/02 +		01/01	
Susantha Ratnayake ** (Appointed as Chairman w.e.f 28 March 2013)	04/04 +	02/02	01/01	01/01	01/01 +
Mobasher Raza *	02/04				
Ariyaratne Hewage **	04/04				01/01
Henry Koo *	04/04	02/02			
Premila Perera ** (Appointed w.e.f. 04 January 2013)	04/04	01/02 ^ 01/02 +			
Asim Imdad Ali ***					01/01

\* Non Executive Director

\*\* Independent Non Executive Director

\*\*\* Non Executive Member

+ Chairman of the Committee

^ Invitee to the Committee

## Corporate Governance contd.

### Corporate Governance Compliance Table

Rule No.	Subject	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	Report on Corporate Governance on pages 116 - 118
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Report on Corporate Governance on pages 116 - 118
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/ non-independence	Compliant	Report on Corporate Governance on pages 116 - 118
7.10.3(a)	Disclosure 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 on Corporate Governance on pages 116 - 118
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as independent, but if the Board is of the opinion that the Director is nevertheless independent, the Board shall specify the criteria not met and the basis for the determination in the Annual Report	Not Applicable	No such determination has been made by the Board as all three Independent Directors met the criteria as per rule 7.10.4
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Section of Board of Directors on pages 18-19
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	Section of Board of Directors on pages 18-19
7.10.4	Criteria for defining independence	As per defined criteria of the CSE listing rules	Compliant	All three Independent Directors meet the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Report of Board Compensation and Remuneration Committee on page 138
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Report of Board Compensation and Remuneration Committee on page 138
7.10.5(b)	Report of Remuneration Committee on page 127	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Report of Board Compensation and Remuneration Committee on page 138
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out: a. names of directors comprising the remuneration committee; b. statement of remuneration policy; c. aggregate remuneration paid to Executive and Non-executive Directors.	Compliant Compliant Compliant	Report of Board Compensation and Remuneration Committee on page 138  Note 31 of Financial Statements on pages 175 - 178

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 136 - 137
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 136 - 137
		b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee meetings	Compliant	
		c. Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Compliant	
7.10.6(b)	Audit Committee Functions	Overseeing of the:		Refer the Statement of the Chairperson of the Audit Committee on pages 136 - 137
		(i) preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards;	Compliant	
		(ii) compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements;	Compliant	
		(iii) processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards;	Compliant	
		(iv) assessment of the independence and performance of the external auditors;	Compliant	
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	(v) make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors;	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 136 - 137
		a. Names of Directors comprising the Audit Committee	Compliant	
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	



## Corporate Governance contd.

### Other Directorships of Directors

Name of the Director	Name of the Company	Position held
Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies Sri Lankan Airlines	Chairman Director
Felicio Ferraz	-	-
Ariful Islam	-	-
Mobasher Raza	Pakistan Tobacco Company Limited	Deputy Managing Director and Finance Director
Ariyaratne Hewage	-	-
Premila Perera	Holcim (Lanka) Limited	Director
Henry Koo	British American Tobacco (Singapore) Pte Limited British American Tobacco Marketing (Singapore) Pte Limited British American Tobacco Asia Pacific Treasury Pte Limited Rothmans Industries Private Limited Icefresh Limited Agrega Asia Pacific Pte Limited	Director Director Director Director Director Director

# Finance Director's Review



*In 2013, Ceylon Chamber of Commerce recognised the Company for the “Best Financial Performance” with the Best Corporate Citizen Sustainability Award*

## Sustainable growth in shareholder value

### Comprehensive Income

Delivering high performance consistently has enabled the Company to successfully establish itself as the most valuable entity listed on the Colombo Stock Exchange in 2013. Financial results for 2013 reflect this trend in sustainable high performance with the top line growth of 8% to Rs. 89.4 billion and a 12% growth in profit after tax to Rs. 9.1 billion.

This was an excellent achievement considering the external environment with subdued consumer confidence which resulted in a 6.4% volume decline in the domestic market. Despite the reduction in volume, our contribution to government revenue increased to Rs. 76.5 billion (all direct and indirect taxes) up by Rs. 5.3 billion from the previous year. Earnings from exports also increased to Rs. 156 million from Rs. 128 million, as we continued to improve our export performance to enhance profitability as well as to increase the inflow of foreign currency to the country.

In 2013, Raw Material cost increased by 4% which was mainly due to higher prices paid to tobacco farmers, better product mix, lower lamina yield of 2012 crop due to drought (consumed in 2013) and wrapping material price increase; partially offset by lower volume and aggressive productivity initiatives. Productivity initiatives also helped in reducing the employment related expenses marginally in 2013. Other operating expenses increased significantly in comparison to last year, mainly due to the one off benefits we had in 2012 such as the realised gain from utilisation of US Dollar deposits. Also in 2013 the residual value of certain asset categories were written off to align residual value of all assets under each asset category. If these one offs were excluded, the underlying increase in operating expenses was only 5%. This marginal increase was mainly due to higher investment in our marketing activities to strengthen our portfolio with the launch of JPGL Special and re-launch of Bristol in the 72 mm segment.

Increased contribution from export income and interest earnings which are taxed at lower rates resulted in a favourable movement in the effective tax rate compared to the previous year; whilst the standard rate of tax remained at 40%.

## Finance Director's Review contd.

The Company adopted revised LKAS 19 effective from 1 January 2013, which resulted in the recognition of the net surplus of plan assets over defined benefit liability amounting to Rs. 123 million in the Statement of Other Comprehensive Income. Impact of the re-measurement is presented in detail in note 18 of the financial statements.

### Investment

In 2013, we continued to invest in our premium brand DUNHILL, which achieved a 13% growth driven by its innovative variant DUNHILL SWITCH. It now accounts for more than 60% of the DUNHILL business.

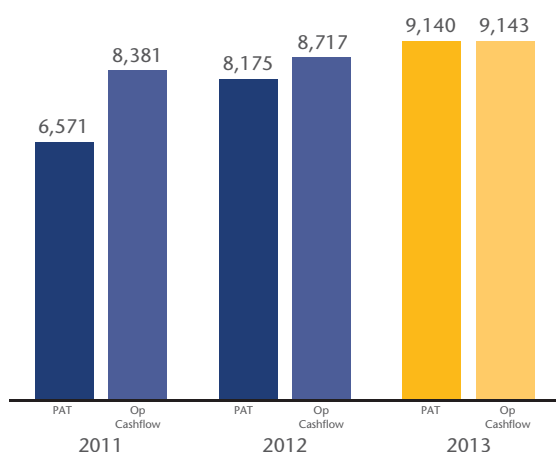
John Player Gold Leaf (JPGL) retained its position as the market leader and the most valuable brand in the portfolio. To strengthen the brand image as well as to facilitate up-trading we launched JPGL Special during the year.

Bristol was re-launched in the 72 mm segment to strengthen the portfolio and cater towards an increasing need for a strong value for money offer. The results to date are encouraging.

Distribution was further strengthened with revamped trade communication and visibility solutions. We also strengthened our trade loyalty initiative with "Abhisheka", our new trade loyalty programme for our valued trade partners.

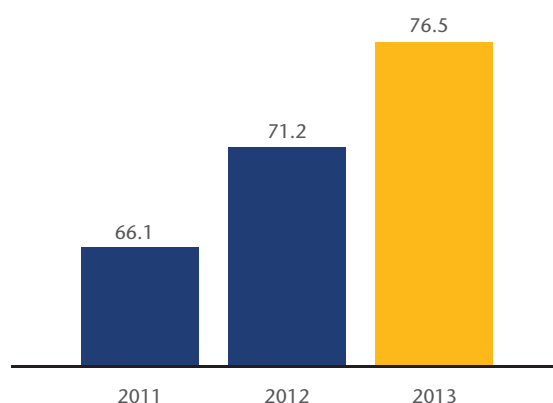
### Financial Performance

(Rs. Mn.)



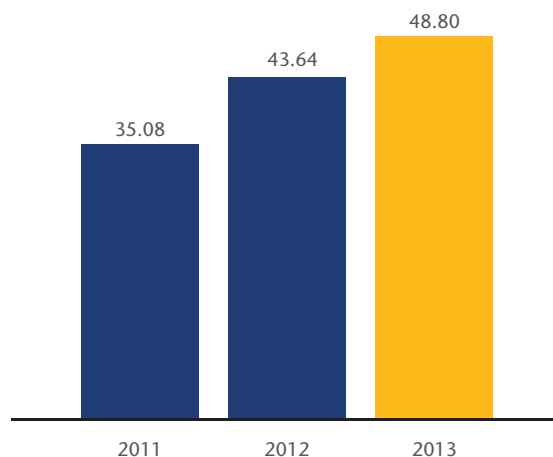
### Government Revenue

(Rs. Bn.)



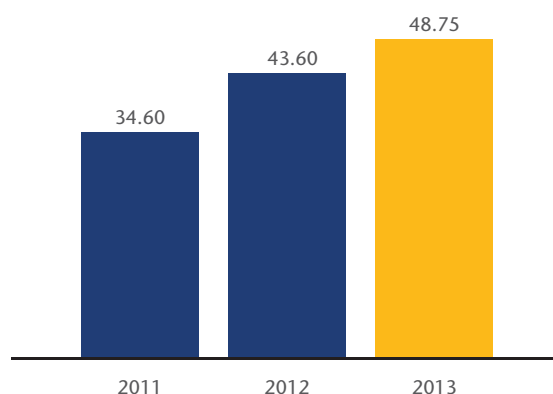
### Earnings Per Share

(Rs.)



### Dividends Per Share

(Rs.)



Capital investments in property, plant and equipment amounted to Rs. 288 million, 4% higher than last year. This includes the cost of replacing old and upgrading existing machinery to enhance productivity and to improve product quality.

### Cash flow and Liquidity

The Company continued to remain liquid and had no debt funding at the end of the year. Close monitoring of the cash flow requirement and regular review of the investment position resulted in the optimisation of interest income.

Higher profit and effective working capital management ensured a 5% growth in Net Cash Generated from operating activities despite paying a higher corporate tax of Rs. 1.0 billion. Distributor credit exposure remained fully covered through bank guarantees and distributor financing scheme.

Dividends paid during the year amounted to Rs 8.6 billion. This comprised of the fourth interim and final dividend of 2012 and three interim dividends of 2013.



*In 2013, Ceylon Chamber of Commerce recognised the Company for the "Best Financial Performance" with the Best Corporate Citizen Sustainability Award.*

### Return to Shareholder

Earnings per share increased by 12% to Rs. 48.80 in line with our commitment to deliver sustainable growth in shareholders' return. Dividends for the year amounted to Rs. 48.75 per share (including a final dividend of Rs. 8.55 per share).

The share price of the Company increased significantly from Rs. 830 at the end of 2012 to Rs. 1,184 at the end of 2013. The Company became the most valuable entity during the year and retained its position with the highest market capitalisation as at 31 December 2013.

In 2013, Ceylon Chamber of Commerce recognised the Company for the "Best Financial Performance" with the Best Corporate Citizen Sustainability Award. We graciously acknowledge this as a testament to our commitment to deliver sustainable growth in shareholder value.

**Ariful Islam**  
Finance Director

07 February 2014

# Risk Management

Risk in CTC is defined as “any event, situation or circumstance which, if it occurred, would adversely impact the achievement of objectives, including the failure to capitalise on opportunities”. This definition, covers events, situations and circumstances caused by internal and external factors. Risks rise in all business activities and cannot be completely eliminated. Business risk is impacted by a number of factors, not all of which are within the Company’s control.

CTC firmly believes that, the management of its risks is vital to the achievement of business objectives and depends on the early identification, comprehensive assessment and regular monitoring of events that may affect the successful delivery of business objectives. Further, the creation of shareholder value only occurs when the returns achieved exceed the returns required to compensate for the risks taken.

The key benefits from managing risks are:

- enhanced decision making – where risks are considered at the time of setting objectives, the decisions take account of events that may affect the successful delivery of them;
- appropriate allocation of resources – an effective risk management process will ensure that resources are focussed to address the most significant risks;
- prevents risks from crystallising – an effective risk management process can help to prevent a risk from crystallising (for example, storing highly flammable materials in a separate building will reduce the risk of a fire starting in a warehouse);
- reduces the impact of a risk – an effective risk management process can help to reduce the impact if a risk does crystallise (for example, installing water sprinklers will reduce the risk of a fire spreading if one starts in a warehouse);
- effective response if a risk arises – an effective risk management process can help ensure an appropriate response as planning should have considered the response and identified the resources required (for example, business continuity plans will reduce losses arising from a warehouse fire).

The key principles of the Risk Management Framework aim to:

- embed risk management in the day to day business conduct due to its strategic importance to the business;
- manage risk at the most appropriate level(s);
- manage both threats to success (downside risks) and missed opportunities for benefit (upside risks);
- ensure Risk Management is closely linked to real decision making and actions (budgetary and strategic) through clear ownership and accountability (of different aspects of risk management activities), thus contributing to the achievement of the strategic and operational objectives;
- ensure cohesion across Risk Management activities in the organisation through an integrated, pragmatic approach with minimum duplication of effort;
- follow a consistent approach across the group to risk management.

## Risk Management Process

The Risk Management process has been developed to ensure alignment to existing business processes. This process will flow directly into the strategic review, budget review and Audit Committee processes.

Once risks are identified it is the responsibility of the functions to develop strategies to manage and mitigate those identified risks. The key risks identified by functions and the proposed action plans to mitigate these risks are reviewed by the Risk Management Committee (“RMC”). The RMC is headed by the Finance Director of CTC and each function is represented by a senior manager. The Executive Committee periodically reviews the risks and mitigation plans. The Board on a bi-annual basis, through the Audit Committee, reviews the approach taken on risk management to ensure continuity of the business.

## Risk Identification

This part of the process identifies the events or scenarios that could prevent the Company from achieving set objectives. This is done by the functions or by the RMC mainly through brainstorming process.

## Assessment and Evaluation

The assessment and evaluation of the risk is to determine whether the risk will have a high impact on the objective or strategy for the Company and whether the risk is likely to occur. The assessment will be done on a scale of 1 to 3 on whether the risk has a high impact and the likelihood to occur. A defined impact and probability matrix is in place and is referred to in this process. Total risk rating is attained by multiplying impact rating and likelihood rating. This process assists in determining whether the risk identified is a key risk to the Company.

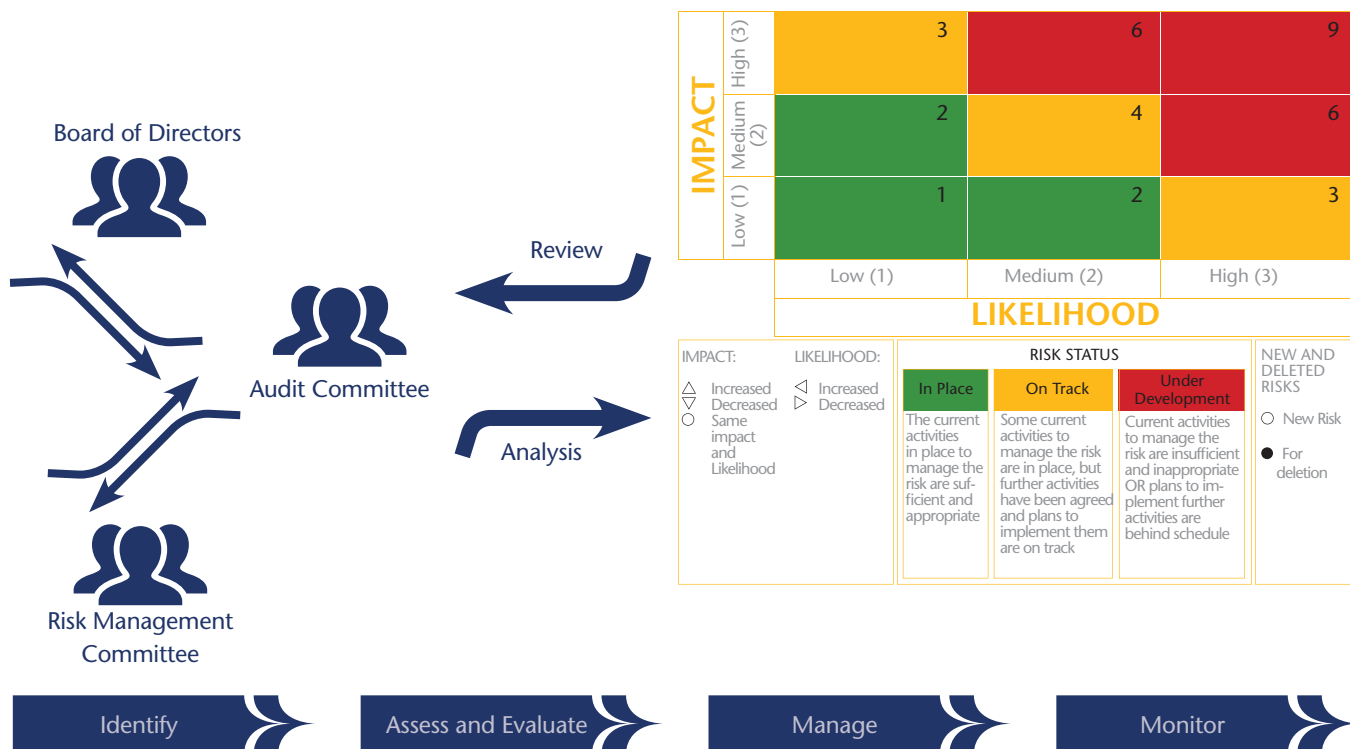
Risks are assessed and validated by RMC and reviewed by the Executive Committee and Board through the Audit Committee.

## Risk Response and Managing of Individual Risks

Identified and assessed risks are managed by the risk owner. Mitigation action plans are developed by the risk owner and reviewed by the Risk Management Committee. This includes the timelines for implementation of the mitigation plans for successful mitigation of the risk.

## Monitoring

A Corporate Risk Grid / Risk Register is maintained to facilitate effectiveness of the Risk Management process. This is reviewed periodically by the Risk Management Committee. The monitoring of risk management at CTC is performed via reviews of the key risks and risk responses by both the Executive Committee and Audit Committee.



## Risk Management contd.

Key foreseeable risks faced by the Company are;

### Illicit Trade

High price of legal cigarettes potentially encourages consumers to substitute to illegal cheaper tobacco products due to a lack of affordability. CTC closely monitors illicit trade and engages with key stakeholders to mitigate this risk.

### Excise and Taxes

CTC continuously reviews its brand portfolio and brand equity to ensure its brands remain relevant to consumers given the high price of legal cigarettes due to high excise and taxes.

### Regulations

CTC operates under a stringent regulatory environment. In certain circumstances regulations have been misinterpreted, leading to unfair enforcement. As a responsible corporate citizen, CTC supports the fair enforcement of the regulations and has enhanced our trade partners awareness on the regulations.

### Increased cost base

In an ever challenging and dynamic business environment, CTC focuses on specific productivity initiatives and cost saving programmes as a major enabler for value growth.

### Crisis Management and Business Continuity Plans (BCPs)

A Crisis Management Team is in place to develop action plans for each critical business process. In the event of total or partial loss of access to the manufacturing sites, office environment, information system facilities, personnel and resources that are normally used in operation, the plans in place executed by the team, will enable CTC to resume the current business operations and support functions in the shortest possible time. The main objective of this process is to have appropriate crisis management capability, designed to contain, manage and conclude, any major event or situation that threatens the Company, as well as continuation of normal operations with minimum disruption, should the unexpected happen.

### Testing of Business Continuity Plans

The Risk Committee identifies the key BCPs to be tested and monitors this process. Key learnings of the testing are reviewed by the RMC and reported to the Audit Committee.

### Risk Management and Internal Audit

Business Audit Methodology, which is the internal audit methodology adopted by CTC draws a clear link between risk management and internal audit. The internal audit plan is formulated by analysing the risk register of the Company, focusing on the processes linked to high risk areas. The controls to mitigate the key risks are periodically audited to provide assurance to both the Executive Committee and the Board that the controls are in place.

# Assessment of Going Concern

The financial statements of CTC for the year ended 31 December 2013 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 twelve months from the balance sheet 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, Health and Safety standards.

## Other Indicators

- Management proactiveness 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 mitigating action plans.

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 control and for reviewing its effectiveness. The Board has established that achieving a sound internal control environment is a key priority, with understanding at all levels and appropriate allocation of resources are 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 the guiding principles Strength from Diversity, Open Mindedness, Freedom through Responsibility and Enterprising Spirit that collectively shape the culture and framework in upkeeping the right control environment that currently exists.

To be effective, internal control 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 the 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, which is presented to the Audit Committee and followed up by the Executive Committee.

The internal control system is monitored by the Executive Committee and Compliance and Internal Audit. The Internal Control Committee (ICC) was established in 2013 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 recommend required changes to policies and procedures;
- enhance organisation wide control awareness and education;
- follow up on Audit and Control Navigator action points.

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

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

- a detailed and up to date Delegation of Authority that enables the Board to exercise appropriate control over the business through the Executive Committee.

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The scope of the Audit Committee is described in the Corporate Governance Statement and in the Statement of the Chairperson of the Audit Committee. To ensure complete independence, both external and internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attend the Audit Committee meetings. Audit reports and findings are presented at Audit Committee meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they have complied with the policy statement on internal control. These best practices were complied with during the year 2013.

The Company Secretary ensures that the Company is in compliance with the relevant rules and requirements of Securities and Exchange Commission and the Colombo Stock Exchange.



**Felicio Ferraz**  
MD and Chief Executive Officer



**Ariful Islam**  
Finance Director

07 February 2014

# Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31 December 2013, together with the audited financial statements of the Company.

## STRUCTURE and KEY ACTIVITIES

British American Tobacco plc (through British American Tobacco Holdings (Sri Lanka) BV)

84.13%



Ceylon Tobacco Company PLC

## PRINCIPAL ACTIVITY

(Manufacture and marketing of cigarettes in the domestic market and export of cigarettes)

## Review of the year

The interview with the Chairman, conversation with the MD and Chief Executive Officer, Management Discussion & Analysis and Financial Review together with the financial statements highlight the Company's performance for the year under review and state of affairs as at 31 December 2013.

- Results for the year 2013 and appropriations

	Rs.000's	Rs.000's	Rs.000's
Retained profit as at 1 January 2013			1,922,053
Current year's profit after charging all expenses and providing for all known liabilities		9,140,490	
<b>Dividends</b>			
Dividends of Rs. 46.70 per on the Issued Share Capital of 187,323,751 shares			
Final Dividend - 2012	-	Rs. 6.50 per share paid on 09/04/2013	
First Interim dividend - 2013	-	Rs. 7.70 per share paid on 21/05/2013	
Second Interim dividend - 2013	-	Rs. 15.00 per share paid on 28/08/2013	
Third Interim dividend - 2013	-	Rs. 12.40 per share paid on 27/11/2013	
Fourth Interim dividend - 2013	-	Rs. 5.10 per share paid on 22/01/2014	
• Net dividend	7,873,217		
• Dividend Tax	874,802	(8,748,019)	
Write back of unclaimed dividends			5,001
Remeasurement of Plan Asset			122,730
<b>Balance carried forward to 2014</b>			<b>2,442,255</b>

Interim dividends of Rs. 7,530 million have been paid from current year profits after tax of Rs. 9,140 million.

The Directors recommend the payment of the final dividend from current year profits of Rs. 8.55 per share less tax for 2013 subject to approval by the Shareholders at the forthcoming Annual General Meeting on 2 April 2013. The final dividend recommended for this financial year has not been recognised as a liability at the balance sheet date in conformity with Sri Lanka Accounting Standard 10 (LKAS 10) - Events after the reporting period.

### Capital Expenditure

The Company capitalised a sum of Rs. 288 million in Property Plant and Equipment in its modernisation programme. The movements in Property, Plant and Equipment for the year are shown in Note 15 to the financial statements.

### Donations

Included in the current year's result is a sum of Rs. 9 million on Corporate Social Responsibility activities shown in Note 11 to the financial statements.

### Commitments and Contingent Liabilities

Contingent Liabilities and Commitments as at the year end are disclosed in Notes 28 and 29 to the financial statements.

### Directorate

The names of the Directors are disclosed in page 16 of the Annual Report.

In accordance with the Colombo Stock Exchange Rule No.7.10.4 the Directors determined that Susantha Ratnayake, Ariyaratne Hewage and Premila Perera, as Independent Directors based on declarations made by them according to Appendix 7A of the Stock Exchange Rules.

### Directors Proposed for Re-election

In accordance with the Articles of Association of the Company, it was resolved, that Ms Premila Perera and Mr Henry Koo retire from the Board of Directors by rotation at the Annual General Meeting and being eligible, be proposed for re-election.

In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9 November 2009) retires at the conclusion of the Annual General Meeting, but seeks re-election as a Director of the Company notwithstanding his age, in terms of notices dated 07 January 2013 received from the British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage.

### Market Statistics - (as at 31 December)

	2013	2012	Growth %
• No of Shares	187,323,751	187,323,751	-
• Earnings per share – Rs.	48.80	43.64	12
• Net assets per share – Rs.	23.04	20.26	14
• Market price per share – Rs.	1,184.00	830.00	43
• Price earnings ratio	24.26	19.02	28
• Dividends per share – Rs.	40.20	38.65	4

## Report of the Directors contd.

### Directors' Interest in Contracts and Related Party Transactions

Directors' interest in contracts and related party transactions are disclosed in Note 31 to the Financial Statements and have been declared at the meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

### Directors' Shareholding

The aggregate shareholding by the Directors and their spouses as at 31 December are as follows:

31 December	2013	2012
Susantha Ratnayake	644	644
Total	644	644

No Director other than those disclosed above has any shareholding.

### Future Developments

Future Company developments are covered in the interview with the Chairman, conversation with the MD and Chief Executive Officer and Management Discussion & Analysis.

### Reserves

Total reserves as at 31 December 2013 comprises of revenue reserves amounting to Rs. 2,442 million. Movements are shown in the Statement of Changes in Equity in the Financial Statements. This does not include the proposed final dividend of Rs. 1,601 million.

### Major Shareholdings

The 20 major shareholders and percentages are disclosed on page 183.

### Employee Share Ownership Plans

The Company has no share ownership plans as at 31 December 2013. However, the BAT group provides a phantom share scheme for eligible members of the Executive Committee, where they are allocated phantom shares based on the achievement of performance criteria. Cash equivalent of half the award is paid to the participants at the granting date, based on the share price on the preceding date and cash equivalent of the remaining half is paid at the

completion of three years of service from the date of grant, based on the share price on the preceding date.

### 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.

### Compliance With Regulations

The Board through the corporate and regulatory affairs function and the finance function makes every effort to ensure that the business of the Company complies with all relevant laws and regulations.

### Auditors

The Auditors, Messrs PricewaterhouseCoopers have expressed their willingness to continue in office. 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.



**Felicio Ferraz**  
MD and Chief Executive Officer



**Ariful Islam**  
Finance Director

07 February 2014

# Statement of Directors' Responsibilities

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement.

As per the provisions of the Companies Act No. 07 of 2007, the Directors are required to prepare for each financial year and place before a General Meeting, financial statements, which comprise of;

- i. Statement of Financial Position, which presents a true and fair view of the financial position of the Company as at the end of the financial year, and which complies with the requirements of the Act; and
- ii. A Comprehensive Statement of Income, Statement of Cash Flows and Statement of Changes in Equity which provide the true and fair view of the Company for the financial year.

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. all applicable Sri Lanka Accounting Standards (SLFRS/ LKAS), as relevant, have been followed;
- iii. judgments and estimates have been made which are reasonable and prudent;
- iv. required information has been provided in full and otherwise complied with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

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

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

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

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

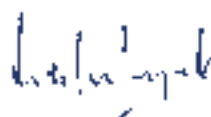
The financial statements were audited by Messrs PricewaterhouseCoopers, Chartered Accountants, the independent external auditors.

The Audit Committee of the Company meets periodically with the internal auditors and the independent external auditors to review the manner in which these auditors are performing their responsibilities and to review audit findings, internal control and financial statements. To ensure complete independence, the independent external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

## Compliance Report

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 being provided for, except as specified in Note 28 to the financial statements covering contingent liabilities.



**Susantha Ratnayake**  
Chairman



**Felicio Ferraz**  
MD and Chief Executive Officer

07 February 2014

# Statement of The Chairperson of The Audit Committee

## 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 116 - 118.

## Composition of the Audit Committee

The composition of the Audit Committee ("the Committee") remained at three with two Independent Non-Executive Directors and a Director of a BAT Subsidiary overseas who is independent of executive functions of CTC. The Chairman of the Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka and a former Partner and Head of Tax services of KPMG in Sri Lanka.

The members of the Committee as at 31 December 2013 are,

Ms. Premila Perera (Chair)

Mr. Susantha Ratnayake

Mr. Henry Koo

The Chief Executive Officer, Finance Director and the Engagement Partner of the external audit firm attend meetings on invitation. The Company Risk and Control Manager serves as the Secretary to the Committee.

## Terms of Reference

Terms of Reference of the Committee, approved by the Board, are in line with BAT policy. The responsibilities and objectives of the Committee which have remained unchanged from the previous year are as follows;

### 1. Financial Statements

Monitor the integrity of the financial statements of the Company and of any formal announcements relating to the Company's performance. Review significant assertions made by the management in preparing financial statements.

### 2. Internal Control and Business Risks

Review the effectiveness of the internal controls over financial reporting, compliance with legal and regulatory requirements and business risk systems of the Company.

### 3. Internal Audit

Evaluate the adequacy of the internal audit plan, monitor and review the effectiveness of the internal audit service provided and the impact of matters reported by the internal audit.

### 4. External Audit

Evaluate performance of the external auditors, ensure their independence and objectivity, approve the terms of engagement and recommend the level of audit fees for approval by the Board of Directors.

## Meetings

The Committee met twice during the year. Attendance by the committee members at each of these meetings is given in the table on page 119 of the annual report. All invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

## Activities

The Committee carried out the following activities:

### Managing Risks

The Committee reviewed the Company's risk grid and risk register including the meeting minutes of the Risk Management Committee, which identify the key risks, faced by the Company and plans for mitigation. The members provided valuable feedback to the management on the risk management process of the Company.

### Internal Audit

The Committee approved the internal audit plan for 2013 at the beginning of the year and monitored the implementation of the plan. The findings of the internal audit were reviewed and progress of action plans was monitored. The committee also approved the 2014 review plan and focused on the resource requirements and future plans pertaining to internal audit.

## Internal Controls

The Committee reviewed the Control Navigator, which is a self-assessment of the Control Environment and the Internal Control Statement prepared by the management prior to submission to the BAT Global office.

## External Audit

The Committee reviewed the independence of the external auditor (PwC), the scope of audit for 2013 and fees payable.

The Management Letter issued by the External Auditors (PwC) to report matters which arose during the course of the audit, the management responses thereto were reviewed and implementation of recommendations were also monitored by the Committee. The letter of representation issued to the External Auditor was also reviewed by the Committee to ensure that the representations made were consistent with the understanding of the committee, as to the Company's operations and plans.

The Committee also reviewed the performance of the external auditor (PwC) and recommended to the Board of Directors that they be re-appointed for the financial year ending 31 December 2014.

## Financial Reporting

The Committee examined the appropriateness of the accounting policies used and reviewed the financial statements of the Company to obtain comfort on their integrity and compliance with Accounting Standards.

## Good Governance

A Statement of Business Conduct (SoBC) is submitted each year by the Management to the Group, to identify and report incidents of non-compliance and whistle blowing incidents. The Committee was satisfied that all whistle blowing incidents were investigated, action taken where necessary and incidents of non-compliance have not adversely affected "Good Governance" policies and status of the Company. The Committee also reviewed the loss reports and regularly monitored compliance with laws and regulations.

## Audit Committee Effectiveness

A survey on the effectiveness of the audit committee was conducted using an evaluation matrix and comments made by each member of the Committee, Chief Executive Officer, Finance Director and the External Auditor. The results were satisfactory.

## Appreciation

The Committee records its appreciation of the services rendered by the external auditors and staff of the internal audit, finance and risk management functions in assisting the Company to maintain high standards in the conduct of business, manage internal control and business risks and to prepare and present financial statements in conformity with accounting standards and best practices.

The valuable inputs provided by each person who completed the Audit Committee effectiveness survey are acknowledged with thanks.



**Premila Perera**  
Chairperson  
Audit Committee

07 February 2014

## Members

Susantha Ratnayake, Henry Koo

# Board Compensation and Remuneration Committee Report

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

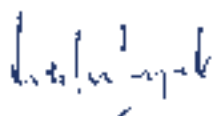
The scope of the Committee includes the following to;

- 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.

The Committee met on one occasion during the year 2013. During the above meeting the focus was on the review of the salary survey results, market positioning, market anchor movements and the salary increments to be awarded during the year.

In reviewing the above, the main focus was laid on three key areas. The increments were awarded with emphasis on pay for performance and retaining high potential employees of the Company, whilst functional line managers were given more responsibility in deciding the distribution of the increments within their respective functions.

The Committee also approved a set of proposals via circulation at an interim occasion during the year 2013, with a focus on revising functional allowances paid to non-management staff.



**Susantha Ratnayake**  
Chairman,  
Board Compensation and Remuneration Committee,  
Ceylon Tobacco Company PLC

07 February 2014

## Members

Premila Perera, Ariyaratne Hewage

# Independent Auditors' Report



## Independent Auditors' Report To the shareholders of Ceylon Tobacco Company PLC.

## Report on the Financial Statement

- 1 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 2013, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 146 - 179.

## Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Scope of Audit and Basis of Opinion

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable

assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

## Opinion

- 4 In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2013 and the financial statements give a true and fair view of the Company's financial position as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Report on Other Legal and Regulatory Requirements

- 5 These financial statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 7 of 2007.

PricewaterhouseCoopers

**CHARTERED ACCOUNTANTS**  
**COLOMBO**

07 February 2014

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# Most preferred

## *Worth*

We delivered an exceptional performance yet again in 2013 as reflected in our financial results.

# Statement of Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December 2013	2012 Restated
Gross revenue	8	89,454,665	82,770,420
Government levies	8	(67,837,049)	(63,568,594)
Net revenue		21,617,616	19,201,826
Raw materials used		(2,701,389)	(2,606,553)
Employee benefit expenses	9	(1,006,792)	(1,016,210)
Depreciation and amortisation expenses		(303,935)	(190,146)
Other operating expenses		(3,147,659)	(2,424,890)
Other operating income	10	50,865	90,677
<b>Operating profit</b>		<b>14,508,706</b>	<b>13,054,704</b>
Net finance income	12	734,736	646,376
Profit before income tax		15,243,442	13,701,080
Income tax expenses	13	(6,102,952)	(5,526,376)
<b>Profit for the year</b>		<b>9,140,490</b>	<b>8,174,704</b>
<b>Other comprehensive income:</b>			
Remeasurement of defined benefit obligations	18	122,730	290,515
Restatement of defined benefit charge to equity in prior year		-	(35,336)
<b>Total other comprehensive income for the year</b>		<b>122,730</b>	<b>255,179</b>
<b>Total comprehensive income</b>		<b>9,263,220</b>	<b>8,429,883</b>
<b>Profit attributable to :</b>			
Equity holders of the Company		9,140,490	8,174,704
Non controlling interest		-	-
		9,140,490	8,174,704
<b>Total comprehensive income attributable to :</b>			
Equity holders of the Company		9,263,220	8,429,883
Non controlling interest		-	-
		9,263,220	8,429,883
<b>Earnings per share</b>			
- basic (Rs)	14	48.80	43.64
- diluted (Rs)	14	48.80	43.64

The Notes on pages 146 to 179 form an integral part of these financial statements.  
Independent auditors' report - page 139

## Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands)

	Note	As at 31 December 2013	2012 Restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	1,599,295	1,634,701
Intangible assets	16	27,643	3,791
Investment in subsidiary	17	-	500
Net surplus assets on retirement benefit plans	18	594,350	447,501
Receivables	21	97,539	135,004
		2,318,827	2,221,497
<b>Current assets</b>			
Inventories	20	2,962,377	2,770,796
Trade and other receivables	21	1,635,606	2,472,175
Cash and cash equivalents	22	8,250,597	7,938,523
		12,848,580	13,181,494
<b>Total assets</b>		<b>15,167,407</b>	<b>15,402,991</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Stated capital	23	1,873,238	1,873,238
Retained earnings		2,442,255	1,922,053
		4,315,493	3,795,291
<b>Non-current liabilities</b>			
Deferred income tax liabilities	24	295,218	281,419
		295,218	281,419
<b>Current liabilities</b>			
Trade and other payables	25	6,224,411	6,902,828
Income tax liabilities		3,254,201	3,520,976
Dividend payables	26 (a)	955,351	805,492
Unclaimed dividends	26 (b)	122,733	96,985
		10,556,696	11,326,281
<b>Total liabilities</b>		<b>10,851,914</b>	<b>11,607,700</b>
<b>Total equity and liabilities</b>		<b>15,167,407</b>	<b>15,402,991</b>
<b>Net assets per share (Rs)</b>	<b>27</b>	<b>23.04</b>	<b>20.26</b>

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

  
Ariful Islam  
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 07 February 2014.

  
Felicio Ferraz  
MD and Chief Executive Officer  
07 February 2014

  
Ariful Islam  
Finance Director

The Notes on pages 146 to 179 form an integral part of these financial statements.  
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## Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Note	Stated capital	Retained earnings	Total
Balance as at 1 January 2012 (as previously reported)		1,873,238	1,704,793	3,578,031
- Effect of adopting amendments to LKAS 19	6	-	91,073	91,073
- Other adjustments	6	-	(1,680)	(1,680)
Balance as at 1 January 2012 (restated)		1,873,238	1,794,186	3,667,424
<b>Total Comprehensive Income</b>				
Profit for the year		-	8,174,704	8,174,704
Other comprehensive income		-	255,179	255,179
<b>Total Comprehensive Income for the year</b>		-	8,429,883	8,429,883
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	26 (b)	-	5,469	5,469
Dividends	26 (c)	-	(8,307,485)	(8,307,485)
<b>Total transactions with shareholders</b>		-	(8,302,016)	(8,302,016)
<b>Balance as at 31 December 2012 (restated)</b>		<b>1,873,238</b>	<b>1,922,053</b>	<b>3,795,291</b>
Balance as at 1 January 2013 (as previously reported)		1,873,238	1,542,145	3,415,383
- Effect of adopting amendments to LKAS 19	6	-	379,908	379,908
Balance as at 1 January 2013 (restated)		1,873,238	1,922,053	3,795,291
<b>Total Comprehensive Income</b>				
Profit for the year		-	9,140,490	9,140,490
Other comprehensive income		-	122,730	122,730
<b>Total Comprehensive Income for the year</b>		-	9,263,220	9,263,220
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	26 (b)	-	5,001	5,001
Dividends	26 (c)	-	(8,748,019)	(8,748,019)
<b>Total transactions with shareholders</b>		-	(8,743,018)	(8,743,018)
<b>Balance as at 31 December 2013</b>		<b>1,873,238</b>	<b>2,442,255</b>	<b>4,315,493</b>

The Notes on pages 146 to 179 form an integral part of these financial statements.  
Independent auditors' report - page 139

## Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December	
		2013	2012
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	14,748,847	13,381,801
Interest paid		(2,481)	(2,576)
Interest received		661,936	588,939
Defined benefits obligations paid		-	(830)
Taxes paid		(6,264,805)	(5,250,121)
<b>Net cash generated from operating activities</b>		<b>9,143,497</b>	<b>8,717,213</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(288,318)	(276,437)
Proceeds from disposal of property, plant and equipment		23,788	3,467
Return of investment in subsidiary		500	-
<b>Net cash (used in) investing activities</b>		<b>(264,030)</b>	<b>(272,970)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	26 (a)	(8,565,022)	(8,295,146)
Unclaimed dividends paid		(2,371)	-
<b>Net cash used in financing activities</b>		<b>(8,567,393)</b>	<b>(8,295,146)</b>
<b>Increase in cash and cash equivalents</b>		<b>312,074</b>	<b>149,097</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of year		7,938,523	7,789,426
Increase		312,074	149,097
<b>At end of year</b>	<b>22</b>	<b>8,250,597</b>	<b>7,938,523</b>

The Notes on pages 146 to 179 form an integral part of these financial statements.  
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# Notes to the Financial Statements

## 1 General information

### Company

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

British American Tobacco Plc is the ultimate parent Company of Ceylon Tobacco Company PLC through British American Tobacco Holding (Sri Lanka) BV.

### Subsidiary - Liquidated

#### (a) CTC Services Limited

This Company is the subsidiary of Ceylon Tobacco Company PLC. Since the subsidiary Company was liquidated on 28 August 2013, no consolidated financial statements are applicable from that date. However, as there were no operations in this subsidiary Company up to the date of liquidation, no consolidated financial statements have been presented incorporating the results of the subsidiary for the period up to 28 August 2013. Therefore, considering the materiality of the subsidiary Company's operations, management decided not to consolidate the financial results of the subsidiary Company for the period from 1 January 2013 to 28 August 2013. (Refer details in note 17)

### Other Interests

#### (b) Outreach Projects (Guarantee) Limited

Ceylon Tobacco Company PLC incorporated Outreach Projects (Guarantee) Limited on 26 December 2007, of which liability is limited to a personal guarantee of Rs. 100 for each Member of the Board of Directors, in order to carry out corporate social responsibility activities of Ceylon Tobacco Company PLC.

## 2 Basis of preparation

The Company prepares the financial statements in accordance with the Sri Lanka Accounting Standards ('SLFRS/LKAS') issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and Sri Lanka

Accounting and Auditing Standards Act No. 19 of 1995.

The preparation of financial statements in conformity with SLFRS/LKAS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

## 2.1 Changes in accounting policy and disclosures

### (a) New and amended standards adopted by the Company

LKAS 19, 'Employee benefits' was revised with effect from 1 January 2013. The changes on the Company's accounting policies have been as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in Other Comprehensive Income as they occur and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 6 for the impact on the financial statements.

### (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not early adopted.

SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in Other Comprehensive Income rather than the

income statement, unless this creates an accounting mismatch. The Company is yet to assess SLFRS 9's full impact and intends to adopt SLFRS 9 no later than the accounting period beginning on or after 1 January 2015.

SLFRS 10, Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Company. The standard provides additional guidance to assist in the determination of controls where this is difficult to assess. The Company is yet to assess SLFRS 10's full impact and intends to adopt SLFRS 10 no later than the accounting period beginning on or after 1 January 2014.

SLFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess SLFRS 12's full impact and intends to adopt SLFRS 12 no later than the accounting period beginning on or after 1 January 2014.

SLFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRS/LKASs. The Company is yet to assess SLFRS 13's full impact and intends to adopt SLFRS 13 no later than the accounting period beginning on or after 1 January 2014.

### 3 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 3.1 Basis of measurement

The financial statements are prepared under historical cost convention and applied consistently with no adjustments being made for inflationary factors affecting the financial statements.

#### 3.2 Segmental reporting

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.

The Company operates in two geographical segments - domestic and the export markets. However, operating segments not presented as exports make up less than 1% of sales turnover.

##### (a) Functional and presentation currency

Items included in the financial statements of each Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the respective transaction or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'net finance income'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within other operating expenses.

#### 3.4 Property, plant and equipment

All property, plant and equipment is initially recorded at cost and stated at historical cost less depreciation.

## Notes to the Financial Statements contd.

### 3 Summary of significant accounting policies (contd)

#### 3.4 Property, plant and equipment (contd)

Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the cost 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 repairs and maintenance costs are charged to Statement of Comprehensive Income during the financial period in which they were incurred.

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 building	40 years
Leasehold building	Over the lease period
Plant and machinery	14 years
Lab equipment	10 years
Canteen equipment	10 years
Building improvements / upgrade	10 years
Office equipment	5 years
Furniture and fittings	5 years
Vehicle and accessories	4 years
IT equipment	3 years
Household Equipment	3 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. The residual value of certain asset categories were written off to align residual value of all assets under each asset category.

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.

#### 3.5 Intangible assets

Intangible assets wholly consist of cost of computer software. Costs associated with maintaining computer software programmes are recognised as an expense when incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed three years.

### 3.6 Impairment of non-financial assets

Assets 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 3.7 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

## 3.8 Financial assets

### 3.8.1 Classification

The Company classifies its financial assets in the following categories: "at fair value through profit or loss", "loans and receivables", "held to maturity" and "available for sale". The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. However, as

at the reporting date the Company's financial assets comprised of only "loans and receivables".

#### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position (Notes 3.13 and 3.14).

#### (c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### (d) Held to maturity

Held to maturity investments are non-derivative financial assets with a fixed or determinable payment and a fixed maturity that an entity has the positive intention and ability to hold to maturity.

### 3.8.2 Recognition of financial assets

Regular purchases and sales of financial assets are recognised on the "trade date" – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs

## Notes to the Financial Statements contd.

### 3 Summary of significant accounting policies (contd)

#### 3.8.2 Recognition of financial assets (contd)

are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and assets held to maturity are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'other operating income/expenses' in the period in which they arise.

#### 3.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

#### 3.10 Impairment of financial assets

##### (a) Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

For "loans and receivables" category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Statement of Comprehensive Income. If a loan or held to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Statement of Comprehensive Income.

**(b) Assets classified as available for sale**

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

**3.11 Financial liabilities**

The Company's financial liabilities include trade and other payables. All other financial liabilities except for financial liabilities at fair value through profit or loss are recognised initially at their fair values and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

**3.12 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.

**3.13 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 3.10.

**3.14 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.

**3.15 Stated capital**

Stated capital is the ordinary shares that make up the equity of the Company.

**3.16 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.

Trade payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**3.17 Current taxes and deferred income taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Sri Lanka

## Notes to the Financial Statements contd.

### 3 Summary of significant accounting policies (contd)

#### 3.17 Current taxes and deferred income taxes (contd)

where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax, which are the rates expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred income 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.

Deferred income 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 income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### 3.18 Employee benefits

##### (a) Defined benefit plan

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is

calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of long term government bonds.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in Statement of Comprehensive Income.

##### (b) Defined contribution plan

For defined contribution plans, such as the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), the Company contributes 15% and 3% respectively, of the employees' basic or consolidated wage or salary. The Company has no further payment obligations once the contributions have been paid. All local employees of the Company are members of these defined contribution plans. Contributions are recognised as employee benefits expense when they are due.

##### (c) Short term employee benefits

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

##### (d) Share based payments

The Company has no share ownership plans. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers value of nominal shares in BAT PLC, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC. Under the scheme, employees may have a right to receive BAT PLC notional shares without a payment (a "share award"), depending on whether performance targets have been met over the previous financial year. The cash equivalent of the share award is split into two components. Half the award is paid at the date of grant based on the share price of the BAT share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of

three years from the date of grant based on the share price preceding the date of payment.

A full provision is made at the grant date with the change in fair value reflected by the current price of the BAT share.

The fair value of this award is calculated on a quarterly basis, with the residual number of shares i.e. - shares initially awarded less shares paid out at date of grant multiplied by the closing share price of the preceding date.

This benefit is included under the employee benefit expense.

### 3.19 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 measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 3.20 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.

### 3.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described

below. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (a) Sale of goods

Revenue from sale of goods is recognised in the Statement of Comprehensive Income when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, associated cost or the possible return of goods.

#### (b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

### 3.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the Statement of Comprehensive Income over the lease period so as to produce a constant periodic rate of interest on the remaining

## Notes to the Financial Statements contd.

### 3 Summary of significant accounting policies (contd)

#### 3.22 Leases (contd)

balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 4 Financial risk management

#### 4.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by a risk management committee under policies and procedures approved by the audit committee. The Finance function identifies and evaluates financial risks in close cooperation with the Company's treasury operation. Treasury function is also governed by the treasury committee, headed by the Finance Director and within the requirements of an approved treasury policy.

#### (a) Market risk

##### (i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and the Great Britain Pound. Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities. Management complies with the treasury policy to manage foreign exchange risk against their functional currency. Exposure to foreign currency is limited to less than 5% of the trade receivables and payable balances.

The significant exchange rates in table 01 below are applied during the year: (Source: Central Bank of Sri Lanka).

Table 01	As at 31 December	
	2013	2012
US Dollar (USD)	128.73	128.35
Great Britain Pound (GBP)	202.66	207.07
Euro (EUR)	173.31	168.23

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 not result in significant changes in the Company's pre-tax profit.

#### (ii) Price risk

Price risk represents the risk that the fair value of future cash flows of a financial statement will fluctuate because of a change in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

#### Equity price risk

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

#### Commodity price risk

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

#### (iii) Cash flow and fair value interest rate risk

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

**(b) Credit risk**

Credit risk represents the risk one party to a financial instrument could cause a financial loss to the other party in the event of failing to discharge a contractual obligation. Credit risk mainly arises from plan assets, trade debtors, advances and cash and cash equivalents. Company treasury guidelines are followed for managing cash and cash equivalents while investment decisions are taken after proper review by treasury committee ensuring compliance with the Company guidelines. The Company sales are on an order to order basis with guarantees equivalent to a day's sales, being obtained from all distributors. No credit limits were exceeded without due approval during the reporting period and 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 presented in table 02 below

<b>Table 02</b>	<b>As at 31 December</b>	
	<b>2013</b>	<b>2012</b>
Fair value of plan assets [Note 18]	1,059,900	1,033,397
Trade receivables [Note 21]	1,083,789	2,114,427
Other receivables [Note 21]	466,581	264,145
Advances to farmers [Note 21]	24,308	26,690
	<b>2,634,578</b>	<b>3,438,659</b>
Cash and cash equivalents [Note 22]	8,250,597	7,938,523
	<b>10,885,175</b>	<b>11,377,182</b>

**(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 funding as per approved credit limit. However, the Company is able to meet all working capital requirements with its cash in hand. Excess funds are invested in term deposits of less than six months. The Management considers liquidity risk to be very low to negligible.

Relevant non-derivative financial liabilities at the reporting date are as per table 03 below:

<b>Table 03</b>	<b>Less than 3 months</b>	<b>Between 3 months and 1 year</b>	<b>More than 1 year</b>
<b>As at 31 December 2013</b>			
Trade and other payables (excluding statutory liabilities)	(171,009)	(4,377)	(5,253)
<b>As at 31 December 2012</b>			
Trade and other payables (excluding statutory liabilities)	(226,970)	(24,839)	(8,086)

## Notes to the Financial Statements contd.

### 4 Financial risk management (contd)

#### 4.2 Capital management

The Company's objective when managing capital is 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 also 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.

The Company's strategy, during 2013 (which was unchanged from 2012), was to be fully equity funded and have no external borrowings.

#### 4.3 Fair value estimation

The carrying values of applicable financial instruments represent their fair values as they are mostly short term non derivative financial instruments.

### 5 Critical accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 5.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

##### (a) Defined benefit plan

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit obligations include the discount rate. Any changes in these assumptions will impact the

carrying amount of defined benefit obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Company considers the interest rates of long term government bonds.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information is disclosed in note 18.

##### (b) Income taxes

Significant judgment is required in determining the provision for income taxes. The volume and complexity of transactions result in the ultimate tax determination being uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

### 6 Change in accounting policy

The amended employee benefit standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. The standard also requires net interest expense / income to be calculated as the product of the net defined benefit liability / asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognising an expected return on plan assets.

The effects of the changes to the accounting policies is shown in table 04 below;

## 6.1 Statement of Financial Position

<b>Table 04</b>	<b>31 December 2012 (previously stated)</b>	<b>Effect of LKAS 19</b>	<b>31 December 2012 (restated)</b>
<b>Non-current assets</b>			
Surplus assets on retirement benefit plan	69,782		
<b>Non-current liabilities</b>			
Post employment benefits	(2,189)		
Net surplus assets on retirement benefit plan	67,593	379,908	447,501
<b>Capital and reserves</b>			
Retained earnings	1,542,145	379,908	1,922,053

	<b>1 January 2012 (previously stated)</b>	<b>Effect of LKAS 19</b>	<b>Other adjustments</b>	<b>1 January 2012 (restated)</b>
<b>Non-current assets</b>				
Surplus assets on retirement benefit plan	105,119			
<b>Non-current liabilities</b>				
Post employment benefits	(3,019)			
Net surplus assets on retirement benefit plan	102,100	91,073		193,173
<b>Capital and reserves</b>				
Retained earnings	1,704,793	91,073	(1,680)	1,794,186

## Notes to the Financial Statements contd.

### 6 Change in accounting policy (contd)

#### 6.2 Statement of Comprehensive Income

	Year ended 31 December		
	2012 (previously stated)	Effect of LKAS 19	2012 (restated)
Profit for the year	8,174,704	-	8,174,704
Other comprehensive income:			
Remeasurement of defined benefit obligations	-	290,515	290,515
Reclassification of defined benefit charge to equity in prior year	-	(35,336)	(35,336)
Total other comprehensive income for the year	-	255,179	255,179
Total comprehensive income for the year	-	255,179	8,429,883

### 7 Segment information

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 gross revenue as disclosed below.

	Year ended 31 December	
	2013	2012
Geographical analysis of gross turnover		
Domestic	89,298,364	82,641,991
Export	156,301	128,429
	89,454,665	82,770,420
Geographical analysis of net results (profit for the year)		
Domestic	9,124,860	8,162,020
Export	15,630	12,684
	9,140,490	8,174,704

#### Assets

Assets are not considered on segmental basis due to the centralised nature of the Company's operations.

#### Entity-wide information

Revenues of approximately Rs. 30,215 million (2012 Rs 35,554 million) are derived from three (2012 - four) external customers, who individually contribute to more than 10% of domestic sales.

**8 Gross revenue**

	Year ended 31 December	
	2013	2012
Local revenue	89,298,364	82,641,991
Export revenue	156,301	128,429
<b>Gross revenue</b>	<b>89,454,665</b>	<b>82,770,420</b>
Government levies		
Excise special provision tax	(57,548,300)	(54,017,138)
Tobacco tax	(31,404)	(33,140)
Value added tax	(9,774,932)	(9,089,030)
Nation building tax	(482,413)	(429,286)
<b>Total government levies</b>	<b>(67,837,049)</b>	<b>(63,568,594)</b>
<b>Net revenue</b>	<b>21,617,616</b>	<b>19,201,826</b>

**9 Employee benefit expense**

	Year ended 31 December	
	2013	2012
Executive Directors' emoluments	97,746	72,838
Salaries and wages	829,665	754,802
Defined contribution plans	64,123	69,637
Provision for voluntary separation scheme [(a) below]	39,377	81,916
Defined benefit obligations [Note 18 (b)]	(24,119)	37,017
	<b>1,006,792</b>	<b>1,016,210</b>

- a) Voluntary separation scheme (VSS) was available to all employees. It is an option, that if exercised by the employee, needs to be provided for by the Company.

**10 Other operating income**

	Year ended 31 December	
	2013	2012
Profit on disposal of property, plant and equipment	9,303	3,136
Sundry sales / gains	41,562	87,541
	<b>50,865</b>	<b>90,677</b>

# Notes to the Financial Statements contd.

## 11 Operating profit

The following items have been charged in arriving at operating profit:

	Year ended 31 December	
	2013	2012
Auditors' remuneration		
- Audit fees	2,619	2,553
- Audit related services fees and expenses	250	152
- Non-audit fees	-	-
Legal fees	56,925	78,262
Administrative expenses	629,044	655,605
Donation and CSR expenses	8,925	7,771
Technical and advisory fees	408,589	534,452
Write-off on property, plant and equipment	9,086	5,811
Depreciation on property, plant and equipment [Note 15]	298,438	186,619
Provision for obsolete inventories	68,072	(10,628)
Provision for doubtful debts	13,012	7,147
Amortisation expenses [Note 16]	5,498	3,524
Repairs and maintenance	32,245	37,550
Non- executive directors' fees	8,832	10,652
Employee benefit expense [Note 9]	1,006,792	1,016,210

## 12 Net finance income

	Year ended 31 December	
	2013	2012
Interest income		
- Interest income from bank deposits	737,217	648,952
Finance income	737,217	648,952
Interest expenses		
- Overdrafts	(2,481)	(2,576)
Finance cost	(2,481)	(2,576)
Net finance income	734,736	646,376

**13 Income tax expenses**

Income tax has been provided on the taxable income of the Company at 40%, 28%, 12% and 10% on profits arising from domestic sales, interest income, export sales and leaf exports respectively.

	Year ended 31 December	
	2013	2012
Current tax on profit for the year	6,089,153	5,499,863
Deferred income tax [Note 24]	13,799	26,513
	<b>6,102,952</b>	<b>5,526,376</b>

The tax on the Company and the Company's profit before tax differs from the theoretical amount that would arise using the weighted average rate of tax of the Company as follows:

	Year ended 31 December	
	2013	2012
Profit before tax	15,243,442	13,701,080
Tax calculated at tax rate of 40% (2012 and 2013)	6,097,377	5,480,432
Tax effects of:		
Tax on expenses not deductible for tax purposes	282,493	144,573
Tax on expenses deductible for tax purposes	(144,274)	(17,443)
Tax effect on rate differentials	(132,644)	(81,186)
<b>Tax charge</b>	<b>6,102,952</b>	<b>5,526,376</b>

Domestic sales constitute of 99.8% of total sales. Therefore no detailed reconciliation is presented on the effect of effective tax rates for export sales and leaf exports. The effective tax rate on interest on interest income is also excluded.

**14 Earnings per share**

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

	Year ended 31 December	
	2013	2012
Net profit attributable to shareholders (in thousands)	9,140,490	8,174,704
Weighted average number of shares in issue	187,323,751	187,323,751
<b>Basic earnings per share (Rs)</b>	<b>48.80</b>	<b>43.64</b>
<b>Diluted earning per share (Rs)</b>	<b>48.80</b>	<b>43.64</b>

## Notes to the Financial Statements contd.

### 15 Property, plant and equipment

	Freehold land	Freehold Buildings	Capital work in progress	Building improvements/ upgrade	Leasehold buildings	Machinery/ equipment	Motor vehicles	Total
<b>Cost</b>								
As at 1 January 2012	97,630	326,705	120,062	62,547	31,052	3,024,535	108,740	3,771,271
Additions	-	-	276,437	22,979	-	137,694	-	437,110
Disposal/ transfer	-	-	(160,673)	-	-	-	(3,312)	(163,985)
Adjustments	-	(2,667)	-	-	-	749	-	(1,918)
Write-off	(689)	(5,214)	-	-	(122)	(55,571)	(169)	(61,765)
As at 31 December 2012	96,941	318,824	235,826	85,526	30,930	3,107,407	105,259	3,980,713
<b>Accumulated depreciation</b>								
As at 1 January 2012	-	204,554	-	25,971	29,649	1,875,468	82,993	2,218,635
Charge for the year [Note 11]	-	5,027	-	7,966	122	167,084	6,420	186,619
Disposals	-	-	-	-	-	-	(2,981)	(2,981)
Adjustments	-	(2,666)	-	-	-	1,670	-	(996)
Write-off	-	(2,345)	-	-	(122)	(52,646)	(152)	(55,265)
As at 31 December 2012	-	204,570	-	33,937	29,649	1,991,576	86,280	2,346,012
Closing net book amount	96,941	114,254	235,826	51,589	1,281	1,115,831	18,979	1,634,701
<b>Cost</b>								
As at 1 January 2013	96,941	318,824	235,826	85,526	30,930	3,107,407	105,259	3,980,713
Additions	-	16,633	-	32,912	-	389,637	-	439,182
Disposal/ transfer	-	-	(155,478)	-	-	-	(45,861)	(201,339)
Adjustments	-	-	-	-	-	-	-	-
Write-off	-	(10,109)	-	(1,409)	(1,937)	(85,781)	(66)	(99,302)
As at 31 December 2013	96,941	325,348	80,348	117,029	28,993	3,411,263	59,332	4,119,254
<b>Accumulated depreciation</b>								
As at 1 January 2013	-	204,570	-	33,937	29,649	1,991,576	86,280	2,346,012
Charge for the year [Note 11]	-	5,208	-	10,137	109	177,178	1,103	193,735
Disposals	-	-	-	-	-	-	(33,925)	(33,925)
Adjustments	-	-	-	-	-	104,703	-	104,703
Write-off	-	(8,100)	-	(1,088)	(1,570)	(79,748)	(60)	(90,566)
As at 31 December 2013	-	201,678	-	42,986	28,188	2,193,709	53,398	2,519,959
Closing net book amount	96,941	123,670	80,348	74,043	805	1,217,554	5,934	1,599,295

- (a) Property, plant and equipment includes fully depreciated assets which are in use, the cost of which at the end of the reporting period amounted to Rs. 1,412,501 (2012 - Rs. 1,407,501).
- (b) Depreciation expenses of Rs. 298,438 (2012 - Rs. 185,996) have been charged to the Statement of Comprehensive Income.

### 15.1 Company Property

The freehold land and buildings were valued by Mr. Arther Perera and Company, Incorporated Valuers. The values reported below are the market values of the respective properties as at 31 December 2013.

The Company follows the cost model as stated in its accounting policy to measure the 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. 4,647,157,100.

Property		Extent of Land			Revalued Amount Rs. '000
Asset Type	Location	A	R	P	
Land and Buildings	Colombo Head Office Factory	7	2	22.15	3,297,007
Land and Buildings	Kandy Industrial premises	5	3	22.05	727,000
Land and Buildings	Kandy commercial premises	2	1	19.22	169,500
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50	21,000
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50	62,300
Land and Buildings	Nildanhinna depot, stores and quarters	2	1	4.00	29,000
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00	25,700
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25	39,600
Land and Buildings	Ambale depot, stores and quarters	2	-	9.66	7,800
Land and Buildings	Wendaruwa quarters	-	2	-	2,900
Land and Buildings	Galewela depot, stores and quarters	5	3	39.87	78,000
Land and Buildings	Hunnasgiriya quarters	-	2	-	1,600
Land and Buildings	Kabitigollawa	3	-	-	21,600
Land and Buildings	Walapane	2	-	3.00	2,200
Land and Buildings	Nuwara'eliya	0	1	31.30	85,250
Land	Kalagedihena	1	2	22.00	48,000
Land	Naula	-	-	21.00	1,000
Land	Weeragula (Warana)	25	-	26.00	27,700

## Notes to the Financial Statements contd.

### 16 Intangible assets

Intangible assets comprise of 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 3.5.

	2013	2012
Cost		
As at 1 January	83,280	84,261
Additions	29,698	-
Write-off	(1,999)	(231)
Adjustments	-	(750)
As at 31 December	110,979	83,280
Amortisation		
As at 1 January	79,489	77,865
Additions	5,498	3,524
Write-off	(1,651)	(231)
Adjustments	-	(1,669)
As at 31 December	83,336	79,489
Net book value	27,643	3,791

### 17 Investment in subsidiary

The subsidiary was liquidated on 28 August 2013. As there were no operations in the subsidiary Company up to the date of liquidation, no consolidated financial statements have been presented incorporating the results of the subsidiary for the period up to 28 August 2013. Therefore, considering the materiality of the subsidiary Company's operations, Management decided not to consolidate the financial results of the same for the period from 1 January 2013 to 28 August 2013.

#### 17.1 Discontinued operations

Analysis of the result of discontinued operations is as follows:

	Year ended 31 December	
	2013	2012
Revenue	-	-
Other operating income	-	3,204
Expenses	-	(1,226)
Profit before tax from discontinued operations	-	1,978
Tax	-	-
Profit after tax from discontinued operations	-	1,978

Statement of Financial Position of the subsidiary as at 31 December 2012 is as follows:

	Year ended 31 December 2012
<b>Assets</b>	
Non current assets	-
Current assets	
Cash and cash equivalents	588
<b>Total assets</b>	<b>588</b>
<b>Equity and liabilities</b>	
Capital and reserves	500
Retained earnings	88
<b>Total equity and liabilities</b>	<b>588</b>

## 18 Post 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 2 million (2012 - Rs 2 million) is not funded and has been provided for in the books of the Company.

### (b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 278 (2012 - 288) 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 19 - Employee Benefits (LKAS 19), to classify it as a qualifying insurance policy (the 'Plan Asset').

The amounts recognised in the Statement of Financial Position are determined as follows:

	As at 31 December 2013	2012 Restated
Present value of funded obligation	463,361	583,707
Fair value of plan assets	(1,059,900)	(1,033,397)
Surplus of funded plans	(596,539)	(449,690)
Impact of minimum funding requirement / asset ceiling	-	-
Present value of unfunded obligations	2,189	2,189
<b>Asset in the Statement of Financial Position</b>	<b>(594,350)</b>	<b>(447,501)</b>

## Notes to the Financial Statements contd.

### 18 Post employment benefits

The movement in the defined benefit obligation over the year is as follows:

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2012 (restated)	788,907	(982,910)	(194,003)
Current service cost	50,179	-	50,179
Interest expense / (income)	75,321	(88,483)	(13,162)
	125,500	(88,483)	37,017
Re-measurements:			
- Return on plan assets, excluding amounts included in interest income	-	(65,020)	(65,020)
- Gain from change in financial assumptions	(165,142)	-	(165,142)
- Experience gains	(60,353)	-	(60,353)
	(225,495)	(65,020)	(290,515)
Payments from plans:	(103,016)	103,016	-
As at 31 December 2012 (restated)	585,896	(1,033,397)	(447,501)

	Present value of obligation	Fair value of plan assets	Total
As at 1 January 2013	585,896	(1,033,397)	(447,501)
Current service cost	32,093	-	32,093
Interest expense / (income)	67,352	(123,564)	(56,212)
	99,445	(123,564)	(24,119)
Re-measurements:			
- Return on plan assets, excluding amounts included in interest expense	-	7,286	7,286
- Loss from change in financial assumptions	18,557	-	18,557
- Experience gains	(148,573)	-	(148,573)
	(130,016)	7,286	(122,730)
Contributions:	-	-	-
Payments from plans:	(89,775)	89,775	-
As at 31 December 2013	465,550	(1,059,900)	(594,350)

The principal assumptions the Company used are as follows:

	As at 31 December	
	2013	2012
Discount rate per annum	11.70%	12.50%
Annual salary increment rate	12.00%	15.00%

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(22,967)	25,476
Annual salary increment rate	1.00%	25,193	(23,126)

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.

## 19 Financial instruments

### (a) Financial instrument by category

#### As at 31 December 2012

	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per Statement of Financial Position				
Trade and other receivables excluding pre-payments	2,308,555	-	-	2,308,555
Cash and cash equivalents	7,938,523	-	-	7,938,523
<b>Total</b>	<b>10,247,078</b>	<b>-</b>	<b>-</b>	<b>10,247,078</b>

## Notes to the Financial Statements contd.

	Liabilities at fair value through profit and loss	financial liabilities at amortised cost	Total
Liabilities as per Statement of Financial Position			
Trade and other payables excluding non financial liabilities	-	6,902,828	6,902,828
<b>Total</b>	<b>-</b>	<b>6,902,828</b>	<b>6,902,828</b>

### As at 31 December 2013

	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per Statement of Financial Position				
Trade and other receivables excluding pre-payments	1,368,260	-	-	1,368,260
Cash and cash equivalents	8,250,597	-	-	8,250,597
<b>Total</b>	<b>9,618,857</b>	<b>-</b>	<b>-</b>	<b>9,618,857</b>

	Liabilities at fair value through profit and loss	financial liabilities at amortised cost	Total
Liabilities as per Statement of Financial Position			
Trade and other payables excluding non financial liabilities	-	6,224,411	6,224,411
<b>Total</b>	<b>-</b>	<b>6,224,411</b>	<b>6,224,411</b>

### (b) 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:

## (i) Cash at bank and short- term bank deposits

		As at 31 December	
	Rating	2013	2012
Cash at bank			
	AAA (lka)	7,647,112	1,406,476
	AA (lka)	20,785	36,086
	AA+ (lka)	8,446	31,572
	A- (lka)	24,566	39,836
	AA- (lka)	1,536	86,640
	BB+ (lka)	7,604	133,863
		7,710,049	1,734,473
Short-term deposits			
	AAA (lka)	535,258	6,200,000
Total cash at bank and the short term deposits		8,245,307	7,934,473

## (ii) Trade receivable

		As at 31 December	
		2013	2012
New Customers		-	-
Existing customers less than 6 months		1,083,789	2,114,427
		1,083,789	2,114,427

## 20 Inventories

		As at 31 December	
		2013	2012
Raw materials		2,059,104	1,900,083
Work-in-progress		15,797	19,110
Finished goods		747,297	731,535
Consumables		204,528	243,642
Provision for obsolete and slow moving inventories		(64,349)	(123,574)
		2,962,377	2,770,796

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

## Notes to the Financial Statements contd.

### 21 Trade and other receivables

	As at 31 December	
	2013	2012
<b>Current</b>		
Trade receivables	1,083,789	2,114,427
Receivables from related parties [Note 31 (ii)]	68,792	87,789
Advances to farmers	24,308	26,690
Other receivables	466,581	264,145
Less: provision for impairment of other receivables	(7,864)	(20,876)
	1,635,606	2,472,175
<b>Non-current</b>		
Other receivables	97,539	135,004
	97,539	135,004
<b>Total trade and other receivables</b>	<b>1,733,145</b>	<b>2,607,179</b>

- (i) Trade receivables wholly consist of amounts receivable from distributors.
- (ii) Trade receivables as at 31 December 2013 of Rs 1,084 million (2012 - Rs 2,114 million) are fully performing.
- (iii) Other receivables of the Company include staff loan receivables amounting to Rs 113 million (2012 - Rs 156 million). Provision for doubtful debts have been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.
- (iv) The movement of the provision for impairment of other receivables over the year is as follows:

	2013	2012
As at 1 January	20,876	77,720
Write-off	(13,012)	(56,844)
As at 31 December	7,864	20,876

### 22 Cash and cash equivalents

	As at 31 December	
	2013	2012
Cash at bank and in hand	7,715,339	371,935
Short term investments	535,258	7,566,588
	8,250,597	7,938,523

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

	As at 31 December	
	2013	2012
Cash and bank balances	8,250,597	7,938,523
	8,250,597	7,938,523

## 23 Stated capital

	Number of shares	Value Rs
At the beginning and end of the year - 2013	187,323,751	1,873,238

All issued shares are fully paid.

## 24 Deferred income tax liabilities

Deferred income taxes are calculated on all temporary differences under liability method using the effective tax rate.

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

	2013	2012
As at beginning of the year	281,419	254,906
Charge for the year [Note13]	13,799	26,513
As at end of the year	295,218	281,419

Deferred income 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 income taxes relate to the same fiscal authority.

	Accelerated depreciation	Defined benefit obligation	Total
Balance as at 1 January 2012	(256,114)	1,208	(254,906)
Charged to the Statement of Comprehensive Income	(26,181)	(332)	(26,513)
As at 31 December 2012	(282,295)	876	(281,419)
Balance as at 1 January 2013	(282,295)	876	(281,419)
Charged to the Statement of Comprehensive Income	(13,799)	-	(13,799)
As at 31 December 2013	(296,094)	876	(295,218)

## Notes to the Financial Statements contd.

### 25 Trade and other payables

	As at 31 December	
	2013	2012
Trade payables	93,610	101,653
Payable to related parties [Note 31 (ii)]	535	319,976
Accrued expenses	1,940,612	944,377
Other payables	4,189,654	5,536,822
	<b>6,224,411</b>	<b>6,902,828</b>

Other payables of the Company include excise special provision tax payable amounting to Rs 3,241 million (2012 - Rs 4,200 million) and Value Added Tax payable amounting to Rs 903 million (2012 - Rs 803 million) and provision for other trade payables amounting to Rs 600 million (2012 - Rs 543 million).

### 26 Dividends payable

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

	2013	2012
As at 1 January	805,492	842,957
Dividend declared [Note (c)]	8,748,019	8,307,485
Dividend paid	(8,565,022)	(8,295,146)
Transfers to unclaimed dividend [Note (b)]	(33,138)	(49,804)
As at 31 December	<b>955,351</b>	<b>805,492</b>

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

	2013	2012
As at 1 January	96,985	52,650
Transfers	33,138	49,804
Payments	(2,389)	-
Write back	(5,001)	(5,469)
As at 31 December	<b>122,733</b>	<b>96,985</b>

(c) The dividends declared during the year are as follows:

	2013		2012	
	per share	Rs.	per share	Rs.
Final dividend - 2012	6.50	1,217,604	5.70	1,067,418
Special dividend	-	-	1.55	290,354
First interim - 2013	7.70	1,442,393	7.90	1,479,860
Second interim - 2013	15.00	2,809,856	12.80	2,397,744
Third interim - 2013	12.40	2,322,815	12.10	2,266,617
Fourth interim - 2013	5.10	955,351	4.30	805,492
	<b>46.70</b>	<b>8,748,019</b>	<b>44.35</b>	<b>8,307,485</b>

## 27 Net assets per share

Net assets per share is calculated by dividing the net assets attributable to shareholders by the weighted average number of shares in issue during the year.

	Year ended 31 December	
	2013	2012
Net assets attributable to shareholders (in thousands)	4,315,493	3,795,291
Weighted average number of shares in issue	187,323,751	187,323,751
Net assets per share (Rs)	23.04	20.26

## 28 Contingent liabilities

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

- Guarantees issued to Commissioner General of Excise in lieu of obtaining the certificate of registration in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 - Rs. 500 million (2012 - Rs. 500 million).
- Guarantees issued to Director General of Customs in lieu of custom duty payable on clearing consignments amounting to Rs. 118 million (2012 - Rs. 176 million).
- Shipping Guarantees issued amounting to Rs. 2.1 million (2012 - Rs. 5.3 million), for goods cleared before the arrival of original bank documents.
- 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. The estimated cost of implementation of Graphical Health Warning (GHW) legislation if required is Rs. 102 million.

## Notes to the Financial Statements contd.

### 29 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.

#### Operating lease commitments - Company as lessee

The Company leases motor vehicles and land under operating lease terms for between 1 year and 30 years with the majority of lease agreements being renewable at the end of the lease period at market rate.

The Company is usually required to give one month notice for the termination of these agreements. The lease expenditure charged to the Statement of Comprehensive Income during the year is under other operating expenses. Land rentals are paid for on an annual basis and motor vehicles on a monthly basis.

The future aggregate minimum lease payments under operating leases are as follows.

	As at 31 December	
	2013	2012
No later than 1 year	16,599	69,054
Later than 1 year and no later than 5 years	96,565	45,966
Later than 5 years	7,721	2,679
<b>Total</b>	<b>120,885</b>	<b>117,699</b>

**30 Cash generated from operations**

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2013	2012
Profit before tax	15,243,442	13,701,080
Adjustments for:		
Depreciation [Note 15]	298,438	186,619
Amortisation of intangible assets [Note 16]	5,498	3,524
Write back of debts	22,099	11,969
Interest expense [Note 12]	2,481	2,576
Interest received [Note 12]	(737,217)	(648,952)
Notional interest income	(849)	(716)
Net interest on retirement benefit obligation	(24,119)	-
Provision for obsolete inventories and doubtful debts	68,071	(49,697)
Gain on disposal of property, plant and equipment [Note 10]	(9,303)	(3,136)
Changes in working capital :		
- Inventories	(191,581)	(575,673)
- Receivables	743,864	(445,532)
- Trade and other payables	(671,977)	1,199,739
<b>Cash generated from operations</b>	<b>14,748,847</b>	<b>13,381,801</b>

**31 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.

The Company is controlled by British American Tobacco Plc (through British American Tobacco Holdings (Sri Lanka) BV) which owns 84.13% of the Company's shares. The remaining 15.87% of the shares are widely held. The Company's ultimate parent is British American Tobacco Plc.

## Notes to the Financial Statements contd.

### 31 Related party transactions (contd)

The following transactions were carried out with related parties:

#### (i) Purchase of goods/ service

	Year ended 31 December	
	2013	2012
BAT (UK and Export) Limited	-	129,337
British American Shared Services (BASS)	58,469	64,885
BAT Aspac Service Centre	-	40,134
BAT Singapore (Marketing)	-	6,409
BAT International Europe	-	1,332
BAT Singapore	1,077	23
BAT Investments Limited	496,882	179,299
BAT Asia Pacific Regional Office	49,570	16,558
BAT Korea	16,208	1,244
BAT International Limited	6,925	-
BAT Holdings UK	51,348	-
BAT Shared Services GSD - UK	318,923	-
BAT GSD KL	142	-
BAT Green Leaf Pool	263	-
BAT Brazil	8,864	-
BAT Bangladesh	754	-
BAT Hongkong	408	-
Tobacco Importers & Manufacturers sdn bhd	2,018	-
Pakistan Tobacco Company Limited	1,229	-
BAT International Services Limited	91,122	-
	<b>1,104,202</b>	<b>439,221</b>

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

	As at 31 December	
	2013	2012
Receivable from related parties [Note 21]		
BASS (GSD)	53,167	189
BAT Investments Limited	-	1,002
BAT Australia	-	2,209
Central Manufacturing Co. (Fiji)	-	724
BAT Bangladesh	-	1,451
PT Bentoel International (Indonesia)	-	6,882
BAT ASPAC	-	8,218
Pakistan Tobacco Company Limited	7,273	7,813
BAT Singapore	4,328	9,467
BAT Services	-	37,647
BAT Marketing (Singapore)	-	4,254
BAT Holdings	1,865	-
BAT Hong Kong	1,094	-
BAT Cambodia	1,065	-
BAT Green Leaf Pool	-	7,933
	<b>68,792</b>	<b>87,789</b>

	As at 31 December	
	2013	2012
Payable to related parties [Note 25]		
BAT (UK and Export) Limited	-	36,690
British American Shared Services	-	64,884
BAT Aspac Service Centre	-	14,290
BAT Singapore	-	6,432
BAT International Europe	-	1,091
BAT Investments Limited	-	178,787
BAT Asia Pacific Regional Office	-	16,558
Pakistan Tobacco Company Limited	535	-
BAT Korea	-	1,244
	<b>535</b>	<b>319,976</b>

## Notes to the Financial Statements contd.

### 31 Related party transactions (contd)

#### (iii) Key management compensation

Key management includes Directors (executive and non-executive). The compensation paid or payable to Key Management for their services is as below:

	Year ended 31 December	
	2013	2012
Salaries and other short-term employee benefits	121,218	120,043
Termination benefits	-	-
Post-employment benefits	-	977
Share based payments	-	-
Other long term employee benefits	-	-

#### (iv) Transactions with Outreach Projects (Guarantee) Limited.

There were no contributions made to Outreach during the period 2013.

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

### 32 Employee share option scheme

The Company has no share ownership plans. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers value of nominal shares in BAT PLC, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC. Under the scheme, employees may receive a right to receive BAT PLC notional shares without payment (a "share award") depending on whether performance targets have been met over the previous financial year. The cash equivalent of the share award is split into two components. Half the award is paid at the date of grant based on the share price of the BAT share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

The value of the share award to each employee is, therefore, equal to the value of the BAT PLC share on the date preceding award date multiplied by the number of shares awarded. A full provision is made at the grant date with the change in fair value reflected by the current price of the BAT share. The fair value of this award is calculated on a quarterly basis, with the residual number of shares i.e. shares initially awarded less shares paid out at date of grant multiplied by the closing share price of the preceding date.

As at 31 December 2013, the fair value of the notional shares granted was Rs. 7.7 million.

### 33 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:

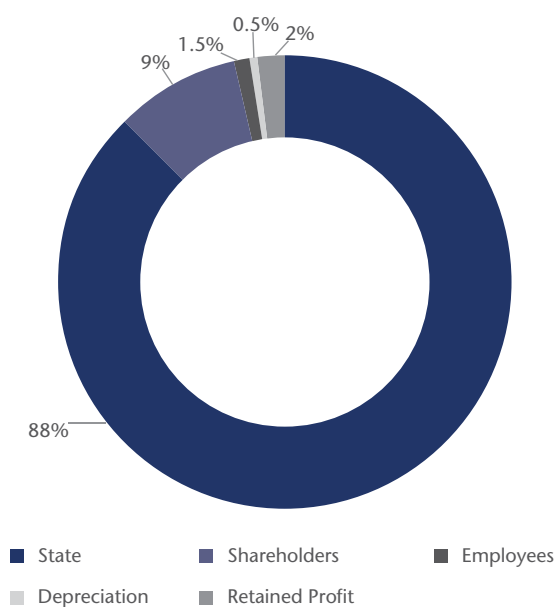
The Board of Directors has recommended a final dividend of Rs. 8.55 per share amounting to Rs. 1,601 million for the year ended 31 December 2013. This is to be approved at the Annual General Meeting to be held on 02 April 2014. Once approved by the shareholders, the final dividend will be payable on 11 April 2014. In accordance with Sri Lanka Accounting Standard No. 10 (LKAS 10) "Events after the Reporting Period", this proposed final dividend has not been recognised as a liability as at 31 December 2013.

As required by Section 56 of the Companies Act, No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with Section 57 prior to recommending the final dividend; a statement of solvency completed and duly signed by the Board of Directors on 7 February 2014 has been audited by the auditors.

## Statement of Value Added

	2013 Rs.000s	2012 Rs.000s
Gross revenue	89,454,665	82,770,420
Supplied materials and services	(5,849,048)	(5,032,669)
Net interest income	734,735	646,376
Other operating income	50,866	90,677
	<b>84,391,217</b>	<b>78,474,804</b>
State	73,940,000	69,094,970
Shareholders	7,530,415	6,949,713
Employees	1,006,792	1,016,210
Depreciation	303,935	190,146
Retained Profit	1,610,075	1,223,765
	<b>84,391,217</b>	<b>78,474,804</b>

Statement of Value Added



## Shareholder Information

### Ordinary Shareholding

Stated Share Capital - Rs.

1,873,237,510

Number of shares representing the Entity's stated capital

187,323,751

Number of Shareholders as at 31 December 2013

3,785 (2012 -3,873)

### Categorisation of Shareholding

Shareholding Range	Resident			Non Resident			Total		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
1-1000	2,559	613,765	0.33	31	10,151	0.01	2,590	623,916	0.33
1001-10,000	1,010	2,946,156	1.57	49	186,520	0.10	1,059	3,132,676	1.67
10,001-100,000	86	2,192,823	1.17	31	1,123,515	0.60	117	3,316,338	1.77
100,001-1,000,000	4	881,436	0.47	10	2,159,035	1.15	14	3,040,471	1.62
Over 1,000,000	-	-	-	5	177,210,350	94.60	5	177,210,350	94.60
Total	3,659	6,634,180	3.54	126	180,689,571	96.46	3,785	187,323,751	100.00

### Computation of % of Public Shareholding

	31 December 2013 No of Shares	31 December 2012 No of Shares
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors' shareholding (including spouses and children)		
S. C. Ratnayake	644	644
	644	644
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 and children)	644	644
Public Holding	29,732,176	29,732,176
	187,323,751	187,323,751
Public Holding as a % of issued number of shares	15.87	15.87

## Shareholder Information contd.

	No of Shares	%	No of Shareholders	%
Individuals	6,571,005	3.51	3,587	94.77
Institutions	180,752,746	96.49	198	5.23
	187,323,751	100.00	3,785	100.00

### CTC Share performance at Colombo Stock Exchange (CSE)

#### Reuters' code CTC,CM

Year	2013	2012
No of share transactions for the year	5,593	2,930
No of Shares traded	2,647,985	3,116,987
Price Movements Rs.		
Highest	1,400.50	830.00
Lowest	720.00	470.00
Closing Price	1,184.40	830.00
Market Capitalisation (Rs. Mn.) as at 31 December	221,866	155,478

**20 Largest shareholders as at 31 December 2013**

		31 December 2013		31 December 2012	
		No of Shares	%	No of Shares	%
1	British American Tobacco Holdings (Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
2	FTR Holdings SA	15,585,910	8.32	15,585,910	8.32
3	Pershing LLL SA Averbach Grauson & Co.	1,731,856	0.90	1,684,700	0.90
4	HSBC INTL NOM Ltd - SSBT-Wasatch Frontier	1,217,442	0.42	391,621	0.21
5	HSBC INT NOM LTD - Coupland Cardiff Funds PLC	1,213,947	0.34	795,067	0.42
6	HSBC INTL NOM LTD-JPMCB	365,866	0.21	238,921	0.13
7	Mrs Jasbinderjit Kaur Piara Singh	309,740	0.21	309,900	0.17
8	National Development Bank / Channa Nalin Rajamoney	290,000	0.17	290,000	0.15
9	PICTET and CIE (Europe) S.A. S/A-The Kigsway Funds	272,862	0.16	-	0.00
10	Miss Neesha Harnam	271,783	0.15	272,300	0.15
11	A I A Insurance Lanka PLC	257,125	0.15	300,000	0.16
12	Harnam Holdings SDN BHD	231,651	0.13	228,900	0.12
13	HSBC INTL NOM Ltd - SSBT-Deutsche Bank	195,600	0.12	195,600	0.10
14	Mr Jayampathi Divale Bandaranayake	183,344	0.10	183,344	0.10
15	Wembly Spirit Limited	170,200	0.10	170,200	0.09
16	DFCC Bank A/C NO.1	150,967	0.10	150,967	0.08
17	HSBC INTL NOM Ltd - UBS AG - Singapore	150,000	0.09	150,000	0.08
18	RBC Investor Services Bank-BI SICAV	144,615	0.08	-	0.00
19	Mellon Bank N A	107,000	0.08	-	0.00
20	K Kandiapillai	97,549	0.08	-	0.00
	Sub Total	180,538,388	96.04	178,538,361	95.31
	Others	6,785,363	3.96	8,785,390	4.69
	<b>Total Shares</b>	<b>187,323,751</b>	<b>100.00</b>	<b>187,323,751</b>	<b>100.00</b>

## Notice of Meeting

NOTICE IS HEREBY given that the Eighty Third Annual General Meeting of Ceylon Tobacco Company PLC will be held at the Auditorium of Ceylon Tobacco Company PLC, No. 178, Srimath Ramanathan Mawatha, Colombo 15, on Wednesday , 2 April 2014 at 10.00 am for the following purposes :

- (i) To receive consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31 December 2013 and the Report of the Auditors thereon.
- (ii) To declare a Final Dividend.
- (iii) To re-elect the following Directors.
  - To re-elect Ms Marie Premila Perera who comes up for retirement by rotation.
  - To re-elect Henry Koo who comes up for retirement by rotation.
  - To re-elect Ariyaratne Hewage, under Article 86 (2) of the Company's Articles of Association (Refer "A").
- (iv) To authorise the Directors to determine and make donations.
- (v) To re-appoint the Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board



**Ranjan Seneviratne**  
Company Secretary

07 February 2014

- (A) In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on 09 November 2009), retires at the conclusion of the Annual General Meeting, but seeks re-election as a Director of the Company notwithstanding his age, in terms of notice dated 20 January 2014 received from British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, as presented to the meeting and initialled by the Chairman for purposes of identification, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage and it was resolved that the said re-election be proposed at the ensuing Annual General Meeting.

## NOTES

1. A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a Proxy, who need not also be a member, to attend instead of him. Such a Proxy may vote on a poll (and join in demanding a poll) but not on a show of hands. The Proxy may not speak at the meeting unless expressly authorised by the instrument appointing him.
2. A Form of Proxy is attached to the Report.
3. The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 178, Srimath Ramanathan Mawatha, Colombo 15, not less than 48 hours before the time for holding the meeting.

**IMPORTANT**

We wish to bring to your notice that in order to ensure the security of all persons and property within the Company premises, entry into the premises is being permitted in the following manner:

1. Admission is granted on the production of the National Identity Card/Passport/ Driving Licence.
2. All persons entering the premises are subject to a security check.
3. No person is allowed to bring any parcel into the premises.
4. Vehicles are parked outside the premises in a place reserved for this purpose.

Your co-operation in this regard will be greatly appreciated.

N.B.

ON ARRIVAL THE SHAREHOLDERS WILL BE USHERED TO THE RECEPTION AREA.

TRANSPORT WILL BE PROVIDED FROM THE RECEPTION AREA TO THE AUDITORIUM FOR THE MEETING AND TO RETURN TO THE RECEPTION AREA AT THE CONCLUSION OF THE MEETING.

[illegible]

## 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

Susantha Ratnayake	whom failing
Felicio Ferraz	whom failing
Ariful Islam	whom failing
Mobasher Raza	whom failing
Ariyaratne Hewage	whom failing
Marie Premila Perera	whom failing
Henry Koo	

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 Wednesday, 2nd April 2014 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 Directors and the Financial Statements for the year ended 31 December 2013.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Marie Premila Perera who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Henry Koo who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To re-appoint the Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

.....  
*Signature*

Signed this ..... day of ..... Two Thousand and Fourteen.

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

**Instructions as to completion:**

1. The persons mentioned in the Form of Proxy are Directors of the Company and they 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 the 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 be entitled to vote as he thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (\*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If the Form of Proxy is signed by an Attorney, the relevant Power-of-Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No.178, Srimath Ramanathan Mawatha, Colombo 15, before 10.00 am on 31 March 2014.
7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

# 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

Messrs FJ & G De Saram  
Attorneys-at-Law

## AUDITOR

Messrs PricewaterhouseCoopers

## BANKERS

Bank of Ceylon  
Commercial Bank of Ceylon PLC  
Citibank NA  
Deutsche Bank AG  
Hatton National Bank PLC  
HSBC  
People's Bank  
Sampath Bank PLC  
Seylan Bank PLC  
Standard Chartered Bank

## HOLDING COMPANY

British American Tobacco Plc through  
British American Tobacco Holdings  
(Sri Lanka) BV

