Against All Odds

Resilience. That's our strong point. In a year where, external pressures and challenges threatened the sustainability of our business, we stayed true to the CTC spirit, rallying our people and resources to realise our corporate goals. We strengthened and evolved our long-term strategy, considering a myriad of potential future challenges, and through precise planning and execution took our business to greater heights. With a legacy of over a century of operations in Sri Lanka, our commitment to the Nation and our stakeholders remains unchanged with a vision for value creation – AGAINST ALL ODDS…

Ceylon Tobacco Company PLC

Annual Report 2017

FEEDBACK

We value your comments, feedback and suggestions on our Report.
For further information, please contact,

Kawshika Abeykoon
Assistant Company Secretary
Ceylon Tobacco Company PLC.
Address : 178, Srimath Ramanathan Mawatha, Colombo 15
Telephone : +94 11 2496200, +94 11 2496401

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CEYLON TOBACCO COMPANY

A member of the British American Tobacco Group

Ceylon Tobacco Company PLC

Annual Report 2017

About This Report

This is our 3rd Integrated Annual Report and through this Report we hope to show how Ceylon Tobacco Company PLC (CTC) has developed and directed its strategy in a manner that balances and optimises value for all stakeholders. The Report includes a comprehensive yet concise discussion of the key factors that shaped the Company's performance during the year, how we are responding to emerging risks and opportunities in the operating landscape, our strategic priorities and plans for next year. The Report conforms to the reporting requirements of the Companies Act No. 7 of 2007, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

This year we have structured the narrative in a manner that allows readers to swiftly and easily identify the material issues that are most critical to our business and our stakeholders. These material topics are the anchor of the Report and are discussed in detail from page 22 to 69. We believe this approach towards presenting information has improved the readability and meaningfulness of our Report while achieving conciseness.

How to read this Report

Overview

Our Business

Ceylon Tobacco Company PLC (CTC) is the only legal manufacturer of cigarettes in Sri Lanka and one of the country's most economically impactful business entities. As the country's largest individual tax contributor, CTC accounts for 7% of the Government's total tax revenue. It is also the 2nd most valuable listed company in the Colombo Stock Exchange. We are one of the country's top employers and our successful value creation story is only possible due to the passion and skills of our 271-strong team of high-performing employees and the 20,000 tobacco farmers and 72,000 retailers we partner with. Our deep involvement in the tobacco supply chain has enabled us to empower over 172,000 livelihoods across the country and is testament to our undeniable impact on the national economy.

As an Organisation operating in a controversial industry, we understand the added responsibility placed on us to maintain the highest standards of corporate conduct and take pride in the sustainable and responsible way our operations are run. The Company's flagship Corporate Social Investment (CSI) initiative, the Sustainable Agricultural Development Programme (SADP) has enabled us to directly contribute towards alleviating poverty and driving socio-economic progress of 76,299 beneficiaries in 19,664 families across 16 districts over the past decade.

Vision

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

Mission

Delivering our commitments to society, while championing informed consumer choice.

Strategy

Growth
Developing brands, innovations and products to meet customer needs.

Productivity
Effectively deploying resources to increase profits and generate funds for investment.

Winning Organisation
Ensuring we have great people, great teams and a great place to work.

Sustainability
Ensuring a sustainable business that meets stakeholders' expectations.

WHAT DIFFERENTIATES US

Our People

We employ 271 high-performing professionals who drive our strategic ambitions. We also partner more than 20,000 tobacco farmers and 72,000 retailers island-wide.

Our Brands

We have a portfolio of diverse brands to cater to evolving consumer needs.

Our Approach

Sustainability thinking and practices are embedded at every level of our business.

An Indomitable Spirit

In the face of growing challenges, we have persevered, working together to overcome adversity and take our business to greater heights. As we continue our journey of over a century, we keep challenging ourselves not just to deliver, but to be the best we can be.

Operational Highlights

112

years of operations in Sri Lanka

2nd

most valuable company listed on the Colombo Stock Exchange as at 31 December 2017

Rs. 117.3 Bn

contributed to government revenue thorough excise, levies and taxes

Rs. 750 Bn

contributed through taxes to the state over the past 10 years

Rs. 11.4 Bn

infused into the local economy throughout our value chain

Delivering Value

CTC is one of Sri Lanka's most economically impactful business entities delivering value across its supply chain. Our history is deeply-rooted in the story of modern Sri Lanka and we continue to contribute significantly to the economic development of the country.

Operational Highlights

43,000+

jobs created across our value chain

172,000+

livelihoods supported through our farming, manufacturing and retailing operations

20,000+

persons involved in tobacco farming using less than 0.01% of the country's arable land

Lives of

72,964

beneficiaries in 19,664 families supported through SADP

Recorded

14

years of zero accidents at our factory

Sustainable Livelihoods

For over a century CTC has maintained deep-rooted relationships with its employees, business partners as well as the communities it operates in.

Performance Highlights

			2017	2016
Financial Highlights	Gross Turnover	Rs. million	139,041	121,525
	Government Levies	Rs. million	107,387	89,777
	Net Revenue	Rs. million	31,653	31,747
	Profit Before Tax	Rs. million	24,571	21,219
	Profit After Tax	Rs. million	14,586	12,559
	Net Assets	Rs. million	4,570	3,485
	Interim Dividends	Rs. million	12,363	11,389
	Proposed Final Dividends (subject to approval at AGM)	Rs. million	2,210	1,124
	Total Value Added	Rs. million	133,488	112,615
	Capital Investment	Rs. million	226	420
	Market Capitalisation	Rs. billion	188,167	151,077
	Value Added Per Employee	Rs. million	493	413
	Permanent Employees	Number	271	273
	Dividend Pay-out Ratio	%	99.90	99.60
	Per Share			
	Market Value	Rs.	1,004.50	806.50
	Net Assets	Rs.	24.40	18.60
	Earnings	Rs.	77.87	67.05
	Dividends (Interim and Proposed Final Dividend)	Rs.	77.80	66.80
Social Highlights	Total Employee Training Hours	Hours	4,103	4,074
	Investment in Training	Rs. million	55	53
	Female Participation in Management Roles	%	18	16
	Total Livelihoods Supported	Number	172,000+	178,000+
	Payments to Tobacco Farmers	Rs. million	1,060	875
	Investment in SADP	Rs. million	44.7	47
	SADP Beneficiaries	Number	76,229	72,964
Environmental Highlights	Energy Consumption	GJ	39,765	41,324
	Energy Efficiency	GJ / MCE	7.3	7.2
	Water Consumption	CuM	34,994	40,396,
	Water Efficiency	CuM / MCE	6.4	7.1
	GHG Emissions	tCO2e	4,266	3,434
	Emission Intensity	tCO2e / MCE	0.8	0.6
	Investment in EHS Initiatives	Rs. million	13	42
	Waste Recycled	%	93	95

tCO2e - Tonnes of Carbon Dioxide Equivalent
GJ - Giga Joules
MCE - Million Cigarette Equivalent
CuM - Cubic Metres

Chairman's Message

A Drive to Achieve

During the year in review, CTC maintained its position as one of Sri Lanka's most economically impactful business entities; the single largest individual tax contributor, accounting for 7% of the Government's total tax revenue.

Susantha Ratnayake

Chairman

It is my pleasure to report that Ceylon Tobacco Company PLC (CTC) continued to deliver on its commitment to shareholders, with earnings per share increasing by 16.1% to Rs. 77.87 in 2017. The Board has approved a final dividend of Rs. 11.80 per share, in addition to the four interim dividends paid, which takes the total dividend per share for 2017 to Rs. 77.80. I am happy to report that CTC was also amongst the highest dividend payers with an average dividend pay-out ratio of 99.9% in 2017. CTC's share price increased by 24.6% during the year in review, despite the broad market decline and continued challenges from the external environment and during the year your Company maintained its position as the 2nd most valuable listed entity on the Colombo Stock Exchange, with a market capitalisation of Rs. 188 billion as at 31 December 2017.

The Company continued to face numerous challenges stemming from its operating landscape. The 43% excise-led price hike in 2016 sharply impacted CTC's volumes while the unlawful enforcement of tobacco regulations continued to adversely impact our operations as well as those of our valued business partners. Against this backdrop your Company's net revenue declined by 0.3% to Rs. 31.6 billion while profits grew by 16.1% to Rs. 14.6 billion during the year in review.

On the macro-economic front, Sri Lanka's GDP growth moderated to 3.7% in the first 9 months of the year reflecting a subdued agriculture sector, which was affected by adverse weather conditions. Accordingly, the Agriculture sector contracted by 3.2% while the Industry and Services sub-sectors grew by a respective 4.5% and 4.2%. A relatively tight monetary policy was maintained for most part of the year in order to curtail inflationary pressures.

During the year in review, CTC maintained its position as one of Sri Lanka's most economically impactful business entities; the single largest individual tax contributor, accounting for 7% of the Government's total tax revenue. Value injection to the local economy across our value chain amounted to Rs. 11.4 billion in 2017, as we continued to support over 172,000 livelihoods engaged in farming, manufacturing and retailing. The Company's flagship CSI initiative, SADP has directly contributed towards poverty alleviation, empowering over 76,200 beneficiaries in more than 19,600 economically underprivileged rural families through agricultural knowledge transfer, resource assistance and skill development.

It is deeply concerning that the year under review saw an alarming influx of smuggled cigarettes. Attempts made in 2016 to reduce tobacco consumption through excessive price hikes on the legal cigarette industry had far reaching repercussions, with many price pressured consumers shifting to cheaper illicit products, not only depriving the Government of much needed tax revenue but also defeating the country's public health objectives. Given the health risks associated with cigarettes, we understand that regulation is necessary, but we urge policy makers to pursue a balanced and evidence-based approach when formulating policies and regulations, which delivers on public health policy goals while preserving the rights of adult consumers and the commercial interests of a legally established tobacco business.

Following British American Tobacco's (BAT's) acquisition of Reynolds American Inc. during the year, BAT along with its subsidiaries further strengthened governance practices to be in compliance with the US standards. Accordingly, CTC also revised its Standards of Business Conduct (SOBC) with increased emphasis on anti-bribery, anti-corruption and public contributions. All employees underwent training on anti-bribery considerations while the whistle-blowing policy was also strengthened during the year. Your Company has complied with all applicable laws and regulations including the CSE Listing Rules and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. I am happy to report that during the year there were no departures from any internal BAT policies including SOBC. Further information on the Company's compliance and governance mechanisms can be found in the Leadership and Governance section of this Report.

Despite the numerous challenges facing the industry, the Company remains deeply committed to the Group's vision for long-term sustainability. Globally recognised as a sustainability champion, BAT was the first tobacco company to be included in the DOW Jones Sustainability Index (DJSI) and has consistently maintained its position as the industry leader in economic, environmental and social performance based on the rankings of the DJSI.

Acknowledgements

As I step down from my position as Chairman and Director of CTC following the Annual General Meeting in 2018, I would like to extend my sincerest appreciation to my fellow Directors for their continued support, guidance and valuable insights through the years. I would also like to take this opportunity to thank Ms. Premila Perera, who resigned from the Board in 2017 for the invaluable services rendered as a Independent Non-Executive Director and the Chairperson of the Board Audit Committee and Related Party Transaction Review Committee.

On behalf of the Board, I take this opportunity to warmly welcome Mr. Yudhishtran Kanagasabai and Mr. Anil Tittawella who joined as Independent Non-Executive Directors with effect from February 2018. I wish them all the very best and hope their tenure with CTC is a rewarding experience.

The Company's success is undoubtedly attributed to the dedication and resilience of its employees, and I offer my appreciation and congratulations to the CTC team led by Mr. Michael Koest, Managing Director and CEO. In conclusion, on behalf of the Board, I thank all stakeholders for the continued support rendered to the Company.

SUSANTHA RATNAYAKE

Chairman

13 February 2018

Managing Director and CEO's Message

Determined to Succeed

While internally our operations remained extremely agile and lean, challenges stemming from the external environment compelled us to pursue decisive management interventions to ensure the sustainability of our value creation.

Michael Koest

Managing Director and CEO

The excessive price hike of legal cigarettes - as predicted in our 2016 Annual Report - has led to an alarming increase in illicit cigarettes being smuggled into the country. The availability of cheaper, illegal substitutes has resulted in a 4% increase in total tobacco consumption.

We commenced 2017 facing an array of unparalleled challenges, in a year that promised to be one of the most testing in the Company's history. While internally our operations remained extremely agile and lean, challenges stemming from the external environment compelled us to pursue decisive management interventions to ensure the sustainability of our value creation. I am extremely happy to report that our strategy served us well in hostile conditions, and we delivered consistent value to our shareholders with profit increasing by a 16.1% to Rs. 14.6 billion in 2017.

CTC remained committed towards contributing to Sri Lanka's economic development through value injection to the local economy and the development of world-class, future-ready business leaders. We are the country's single largest individual tax contributor, injecting Rs. 117.3 billion in excise, taxes and levies in 2017, which amounted to 7% of the State's total tax revenue. Historically our value creation to the Government has grown on average 20% year on year. Based on the historical tax growth, 2017 revenue target for the Government was Rs. 135 billion, whilst we contributed only Rs. 117.3 billion. This is due to the drastic excise hike in October 2016 and the introduction of 15% VAT in November the same year. Bottom line, the Government missed the opportunity to earn an incremental Rs. 17.7 billion in tax revenue.

Our tax contribution is one side of the coin, the other is to validate the progress against health objectives. The excessive price hike of legal cigarettes - as predicted in our 2016 Annual Report - has led to an alarming increase in illicit cigarettes being smuggled into the country. The availability of cheaper, illegal substitutes has resulted in a 4% increase in total tobacco consumption. Both from a tax and health perspective, 2017 has been a very poor year for the Government.

Tobacco regulation in Sri Lanka largely targets the legal industry and attempts to reduce tobacco consumption through price hikes. This has failed due to the absence of a cohesive national strategy to restrict smuggled cigarettes as well as cheaper underregulated products such as beedi. In 2017, law enforcement authorities confiscated 51 million smuggled cigarettes, compared to just 4 million in 2016. Typically, only one in ten cigarettes smuggled is detected, which meant that 510 million illicit sticks had been brought into the country in 2017. Smuggled cigarettes now make up for 6% of the country's total tobacco market, a serious concern for all parties involved. Illicit trading of cigarettes is an issue that harms our business, deprives the Government of taxes and from achieving health objectives as well as strengthening organised crime in the country. Therefore, we continue to work closely with law enforcement authorities to curb illicit trading and prevent substandard products from entering the local market.

Meanwhile, the increasing price disparity between legal cigarettes and cheaper alternatives has tipped the scales in favour of the heavily underregulated and under-priced beedi industry. Beedi has grown exponentially over the past decade, at the expense of legal cigarettes, thus costing the Government billions in lost tax revenue. Furthermore, beedis are not manufactured in a controlled environment and given the lack of quality standards, the likelihood of inferior, hazardous products reaching consumers is high.

Beedi accounts for 51% of the total tobacco market, but contributes less than Rs. 4 billion to the Government's tobacco revenue. The absence of a level playing field in the sector calls for a coherent, national policy if the Government is serious about balancing the financial attractiveness versus the health risks associated with tobacco consumption.

We remain deeply committed to creating sustainable livelihoods for the 20,000 tobacco farmers that partner us. In 2017, we injected Rs. 1.1 billion to the country's rural economy via tobacco farmers, through guaranteed buy-back agreements, directly contributing to economic empowerment in underprivileged areas. The Company offers a holistic value proposition to tobacco leaf farmers, comprising skills development, propagation of sustainable

Managing Director and CEO's Message

We support regulation that is balanced, evidence-based and delivers on intended public health objectives without diminishing the rights of a legal business to sell a legal product. On the other hand, ad-hoc and unreasonable regulations tend to have undesirable and unintended consequences, such as threaten the viability of legal businesses, impact livelihoods and government revenue while boosting illegal trading.

agricultural practices, development of infrastructure and strengthening community networks. In recent years, tobacco farmers have faced increasing pressure by the Government authorities to abandon their legal vocation - tobacco cultivation. This enforcement of non-existing laws is deeply concerning not only from a leaf supply security perspective, but also in view of depriving tobacco farmers from their main source of income and therefore negatively impacting large areas of the rural economy.

Despite these challenges, the Company turned in a year of 16.1% profit growth due to the successful implementation of our 6-pillar strategy centred around growth and sustainability. We optimised our portfolio with the launch of John Player Navy Cut (JPNC), an attractively priced, mid-length cigarette catering to the price sensitive segment of the market. The response for JPNC has been extremely encouraging, with the product achieving commendable reach and brand awareness since its launch. For us, growth is not about encouraging more people to smoke but understanding and meeting the evolving preferences of adult consumers who choose to smoke.

Harm reduction is a key pillar of BAT Group's sustainability strategy, developing a portfolio of Next Generation Products, which address consumer demand for less risky alternatives. We are keen to launch some of these innovative products in Sri Lanka in the future, subject to legislation permitting. In the meanwhile, we continuously pursue vast research and innovation capabilities through our parent company, to deliver less harmful products to our consumers.

The BAT Group's experience and expertise in over 180 markets mean that we have much to offer the governments and regulators when it comes to developing sensible policies on tobacco control. We support regulation that is balanced, evidence-based and delivers on intended public health objectives without diminishing the rights of a legal business to sell a legal product. On the other hand, ad-hoc and unreasonable regulations tend to have undesirable and unintended consequences, such as threaten the viability of legal businesses, impact livelihoods and government revenue while boosting illegal trading. In 2017, we engaged openly and intensely with the Government to educate and raise awareness on the alarming rise in smuggled cigarettes and the negative consequences thereof. We appreciate the fact that the Government on understanding these issues responded effectively, which resulted in excise duties and taxes on legal cigarettes remaining unchanged in the 2018 budget. We would also welcome a debate around a more coherent framework for excise calculation to ensure a sustainable increase in tobacco related revenue to the Government.

We continue to place emphasis on strengthening relationships with our distributors and retailers. In 2017 we engaged intensely with these trade partners to enhance product knowledge and improve business standards. Our retailers have also faced mounting pressure due to the unlawful enforcement by certain authorities, and during the year they formed the Tobacco Retailers' Association to collectively represent their interests. CTC will support this association as it pursues fair operating conditions and a level playing field.

The increasingly challenging external environment also compelled us to engage in numerous interventions to motivate, engage and instil confidence among our team. We made significant investments in strengthening our talent development, with over 85% of our workforce undergoing training during the year. We also sought to energise employees through launching a programme, which recognised and showcased winning behaviour. I am proud to report that our efforts were extremely successful as revealed by BAT's global employee satisfaction survey 'Your Voice' for 2017, in which

CTC not only achieved a drastic improvement compared to the results in 2014 but also scored the best across BAT markets in South Asia. The team at CTC is agile and high-performing, and their skills and fortitude have enabled us to create an organisation that is resilient, fit-to-fight and consistently delivers on its strategic ambitions.

I would like to extend my appreciation to the Chairman, Board of Directors and the Executive Committee for their continued guidance and support, which made 2017 a fantastic year for CTC. The Company's strong performance, against all odds, is reflective of the skills and work ethic of its employees, and I would like to thank the 'CTC Tribe' for their passion and commitment. I look forward to working with you all in the coming year.

Michael Koest

Managing Director and CEO

13 February 2018

Operating Environment

Confronting Our Challenges

Tobacco Regulation

Our industry is one of the most highly regulated in the world, with tobacco subject to extensive product, marketing, and taxation requirements in nearly all countries. In Sri Lanka, our operations are governed by the National Authority on Tobacco and Alcohol (NATA) Act No.27 of 2006, which sets out specific laws on the manufacturing, marketing, sale and consumption of tobacco products among others. Unfortunately, in the last few years we have seen the introduction of several draconian regulations targeting the legal cigarette industry as well as a dramatic increase in the unlawful enforcement of regulations, targeting our traders as well as tobacco farmers, resulting in a highly unpredictable and volatile operating environment.

More recently the Government has proposed several extreme regulations such as a ban on the sale of cigarettes in single stick format, implementation of a radius (100 meter) selling ban and introduction of plain packaging that would further hamper our commercial interests.

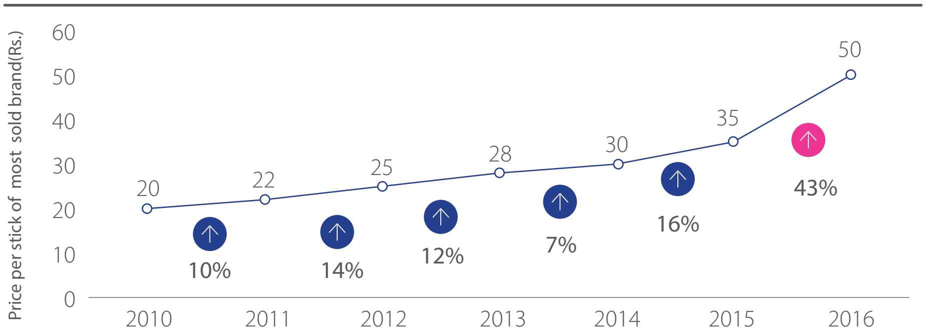
Unreasonable and unlawful enforcement of regulations pressurising cigarette tobacco farmers to abandon tobacco cultivation and 'stop sale' campaigns restricting cigarette retailers from conducting their legal businesses selling a legal product have adversely affected our supply chain while threatening the livelihoods and incomes of our valued business partners.

As a responsible tobacco company, we will continue to support evidence-based, balanced regulations that meet public health objectives while ensuring the sustainability of the livelihoods of our business partners and our commercial interests. However, the enactment of unreasonable laws and the unlawful enforcement of laws and regulations leads to increased costs and complexity while jeopardizing the rights of the legally-established cigarette industry to compete fairly in the market. As in other regulated industries, we believe that the enactment of tobacco regulations should include constructive dialogue with legally established parties that are affected by such regulations, to ensure that the manufacture and consumption of cigarettes is regulated justly and sensibly.

Arbitrary and Steep Increases in Excise Duties and Taxes

The lack of a transparent and systematic policy in the implementation of excise duties, has resulted in arbitrary and steep increases in the retail prices of cigarettes. Over the past decade, excise driven increases have pushed up the retail price by over 250% and Sri Lanka's cigarette prices now rank as the second highest in the world in terms of purchasing power parity[1]. In 2016 alone, the dual impacts of a hike in excise duties and the introduction of 15% VAT resulted in the average price of a cigarette escalating by 43% during the year. This unprecedented increase in the price of legal cigarettes not only led to distorting competition, but also resulted in consumers increasingly shifting to cheaper alternatives and a rise in tobacco trafficking.

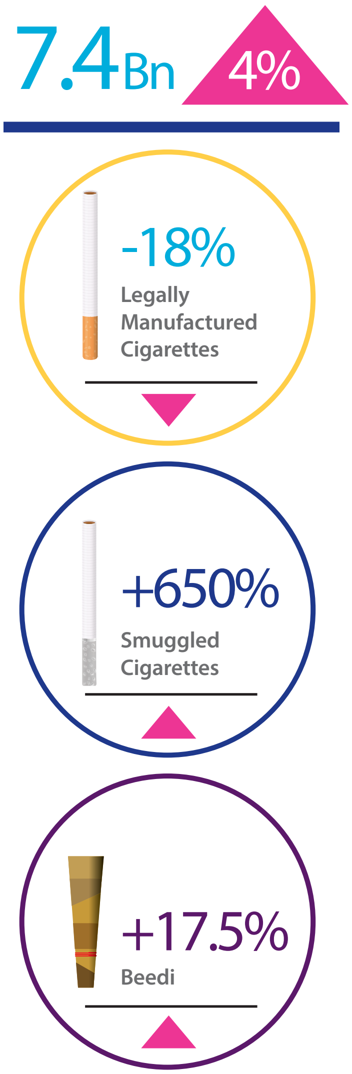
Price increase



[1] *WHO Report on the Global Tobacco Epidemic 2017*

Synopsis of the Sri Lankan tobacco industry

Total Market



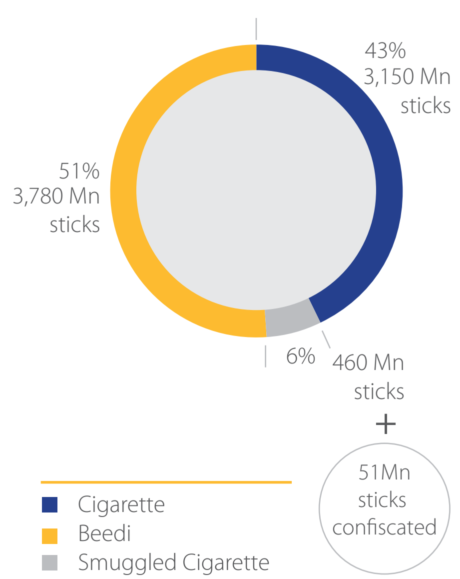
Ballooning Illicit Market

Sri Lanka's tobacco industry consists of CTC - the only legal manufacturer of cigarettes, the underregulated beedi market and the illegal cigarette market. CTC's market share has continued to decrease over the past decade or so as tax and other tobacco regulations have primarily targeted the legal industry, creating an unfair playing field. This has provided impetus for the growth of the illicit market, which saw dramatic expansion in 2017 following the 43% price hike in legally manufactured cigarettes during the fourth quarter of 2016. As predicted in our 2016 Annual Report, with legally manufactured cigarettes becoming more expensive, consumers have increasingly turned to smuggled cigarettes thereby causing a Rs. 17 billion loss in revenue to the State and defeating the Government's public health objectives. In 2017, law enforcement agencies detected 51 million illicit cigarettes, compared to 4 million sticks during the full year of 2016. It is noteworthy that on average, law enforcement authorities detect only one in ten sticks smuggled and based on available data it can be estimated that 510 million illicit cigarettes were smuggled in to the country during the year. Smuggled cigarettes now make up for around 6% of the country's total tobacco market.

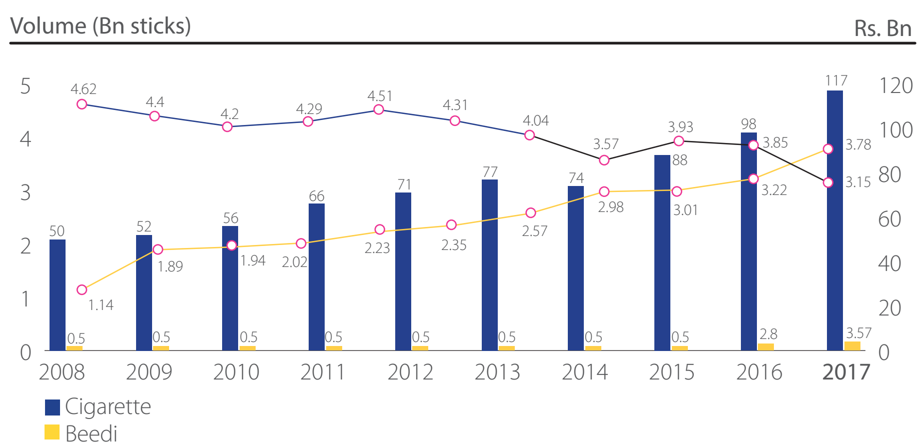
A Growing Beedi Market

Steep excise-led price increases of legally manufactured cigarettes have resulted in a booming beedi market, which has rapidly gained market share as a cheaper alternative to cigarettes. As a flourishing cottage industry, the beedi market is heavily under regulated and under taxed compared to the legal cigarette industry. Despite accounting for nearly 51% of the total combustible market, beedi contributes less than Rs. 4 billion to the Government's tobacco tax revenue with the tax burden unfairly falling on legal cigarettes. In addition to the significant loss to government revenue, the absence of a mechanism to ensure quality standards in beedi production means that the likelihood of inferior products being sold to consumers is high.

Sri Lankan tobacco market 2017



Legal tobacco industry and its tax contribution



Operating Environment

Next Generation Products

Harm reduction is a central pillar of BAT's sustainability agenda and every year, the Group invests substantial funds, resources and time in developing less risky alternatives, which have the potential to reduce smoking-related harm. As a Group, BAT sees great potential in the development of less risky tobacco and nicotine based alternatives. BAT is the only global cigarette manufacturer which offers three distinct Next Generation Product categories for adult consumers; these are licensed medicinal products, vapour products (e-cigarettes) and tobacco heating products. BAT publishes details of its scientific research programmes on its dedicated website, www.bat-science.com, submits the results of studies to peer-reviewed journals, and presents widely at leading international conferences.

How contextual trends relate to our strategy

	Growth	Productivity	Winning Organisation	Sustainability
Tobacco regulation	High	Medium	Medium	High
Arbitrary and steep increases in excise duties and taxes	High	High	Medium	High
Ballooning illicit market	High	Medium	NA	High
A growing beedi market	High	Medium	NA	High
Next Generation Products	Medium	Medium	Medium	High

High correlation   Medium correlation   NA

Value Creation Model

FINANCIAL CAPITAL

Funds used to drive our strategic ambitions and support operations (page 110)

Equity: Rs. 1.9 billion
Total Debt: Zero

MANUFACTURED CAPITAL

Facilities and other physical infrastructure used in manufacturing activities (page 109).

Property, plant and equipment:
Rs. 2.3 billion

HUMAN CAPITAL

Skills, attitudes and experience of our employees. (page 31)

Number of employees: 271

SOCIAL AND RELATIONSHIP CAPITAL

The stakeholder relationships we have nurtured and rely on to create sustainable value.

The strength of our brands.

INTELLECTUAL CAPITAL

Tacit knowledge, standards and procedures.

NATURAL CAPITAL

Natural resources that are used in our value creation.

Energy consumption:
39,765 GJ
Water consumption:
34,994 CuM
Tobacco leaves: 2,716 Tonnes

What we do

Source (Page 46) › Manufacture (Page 44) › Distribute (Page 27)

Our strategy

Risks and opportunities

- Tobacco regulation.
- Arbitrary and steep increases in excise duties and taxes.
- Ballooning illicit market.
- A growing beedi market.
- Next Generation Products.

Outlook

- Continued pressure from the illicit and beedi markets.
- New brand launches to optimise portfolio.
- Emphasis on developing talent.

Guiding Principles:

- Freedom through responsibility
- Strength from diversity
- Open minded
- Enterprising spirit

OUTPUTS

Cigarettes: 3.15 Billion Sticks

Shareholders

Net profit	: Rs. 14.6 billion
EPS	: Rs. 77.87
Dividends per share	: Rs. 77.80
Share price increase	: 24.6%

Employees

Payments to employees	: Rs. 1.3 billion
Training investment	: Rs. 55 million
Number of promotions	: 29

Business partners

Total payments to tobacco farmers	: Rs. 1.1 billion
Payments to other business partners and suppliers	: Rs. 8.1 billion

Regulators / Government

Tax payments	: Rs. 117.3 billion

Community

Investment in SADP	: Rs. 44.7 million
Number of beneficiaries	: 76,299

Natural impacts

Solid waste	: 468.6 Tonnes
Effluents discharged	: 13,708 CuM
Carbon footprint	: 4,265 tCO2e

Vision and Strategy

The Company's strategy is aligned to that of the BAT Group and articulates the blueprint to deliver growth and create long-term value for all stakeholders. Emerging risks and opportunities in the operating environment prompt us to continually revisit and rethink the action plans in place for achieving our priorities, although the key pillars on which our strategic agenda is based, remain unchanged.

Vision

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

Consumers are at the centre of everything we do, and our success depends on effectively responding to their evolving concerns and behaviour.

Mission

Delivering our commitments to society, while championing informed consumer choice

We will defend consumers' right to make an informed choice and be ready to meet new challenges and opportunities as the priorities and needs of societies shift

Strategic focus areas

Growth

New products, brands and innovations

Productivity

Effectively deploy resources to increase profits

Winning Organisation

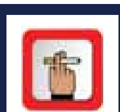
Great people, great teams and a great place to work

Sustainability

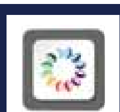
Sustainable business that meets stakeholder expectations

The six strategic imperatives

LEVERS



SHARPEN COMBUSTIBLE COMMERCIAL MODEL

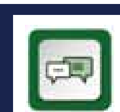


LEAD IN NGP CATEGORY DEVELOPMENT

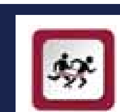
PURSUE INORGANIC OPPORTUNITIES

ENABLERS

ESTABLISH A GLOBALLY INTEGRATED ENTERPRISE



PURSUE PROACTIVE EXTERNAL ENGAGEMENT



DEVELOP TALENT AS A COMPETITIVE ADVANTAGE

Guiding Principles

The four guiding principles define our Organisational culture and define how we deliver our strategy.

Enterprising Spirit

We value enterprise from all of our employees who give us a great breadth of ideas and viewpoints to enhance the way we do business.

Open Minded

We listen to, and genuinely consider other perspectives and changing social expectations. We are open to new ways of doing things.

Freedom Through Responsibility

We give our people the freedom to operate in their local environment.

Strength From Diversity

We respect and celebrate each other's differences and enjoy working together.

The guiding principles translate to the 10 Must Do's for all employees, which provide a blueprint for employee behaviour across the Organisation.

We understand consumer moments and how to satisfy them with world beating tobacco and next generation products.

We build **distinctive brands** by exciting our consumers with powerful innovations at their core.

We set bold ambitions for brand initiatives and deliver with speed and scale to **achieve 70 / 70.**

We **act like owners,** taking personal accountability for building value and driving out complexity and cost.

We will **lead the next generation nicotine products category** globally.

We make tough choices to deploy an aligned and **focused brand portfolio** in our markets.

We **love our products** and provide consistently superior offers to our consumers.

We plan for success and **supply on time and in full.**

We invest as much time and energy in our people as in our brands, focusing on creating a **legacy of leaders.**

We **shape a new deal with consumers and society,** being completely transparent and seeking to offer safer products.

Sustainability at CTC

Sustainability is a vital pillar of our strategy and is crucial to achieving the Company's social and environmental objectives. The sustainability agenda is formulated at BAT level and focuses on three key areas which matter most to the Group and its stakeholders. As a subsidiary, our activities are underpinned by the global sustainability agenda and contribute directly towards fulfilling the Group's global sustainability commitments.

Harm reduction

As part of Group's global sustainability agenda, we are committed to promoting a range of innovative tobacco and nicotine products to enable adult consumers to have a choice of less risky alternatives to regular cigarettes.

Global commitments

Our approach

Investing in a sustainable pipeline of high-quality Next Generation Products to give consumers a choice of less risky alternatives to smoking.

Setting the bar on standards for product safety and quality, based on robust science, and implementing globally responsible marketing practices.

Supporting the development of evidence-based regulation for Next Generation Products by sharing our own research and approach, and collaborating with regulators and standards authorities.

Sustainable agriculture and farmer livelihoods

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment.

Global commitments

Our approach

Supporting farmers' livelihoods across five key focus areas.

Strengthening industry-wide supplier standards and driving best practice and continuous improvement.

Tackling agriculture's social and environmental challenges through global and local initiatives and stakeholder partnerships.

Corporate behaviour

We are committed to operating to the highest standards of corporate conduct and transparency, benefiting governments, consumers, the environment and our people.

Global commitments

Our approach

Engaging openly on regulation.

Responsible marketing of tobacco products and working with retailers to **prevent youth smoking.**

Collaborating with others to tackle the illegal tobacco trade.

Safeguarding human rights across our own operations and our supply chain.

Protecting the health and safety of our workforce.

Addressing the environmental impacts of our business operations.

Commitment to the Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) were signed into effect by global leaders in September 2016 and represent 17 goals and specific targets to be achieved over the next 15 years, with the ultimate objectives of ending poverty, ensuring prosperity and protecting the planet. Sri Lanka too committed to the SDGs, and as an organisation we are exploring ways in which we can contribute towards achievement of the Goals, as illustrated below.

1 NO POVERTY

Poverty alleviation through SADP: The initiative has directly contributed towards increasing income levels of over 76,299 beneficiaries through providing opportunities to generate alternative sources of income. (refer page 66)

7 AFFORDABLE AND CLEAN ENERGY

Multiple initiatives to improve energy efficiency, **reduce dependence on fossil fuels** and using paddy husk to fuel curing barns are testimony to our efforts in combat climate change. (refer page 57)

2 ZERO HUNGER

Increasing nutrition is a key objective of SADP and calorie intake of families has improved in line with the progression of the project (refer page 65). Through SADP, we have empowered over 19,664 rural families to generate income through engaging in home gardening. (refer page 65).

8 DECENT WORK AND ECONOMIC GROWTH

We ensure **decent work and equality** for all employees irrespective of gender, age or ethnicity and ensure a harassment free and non-discriminatory work environment for all. (refer page 33)

5 GENDER EQUALITY

In 94% of SADP families, women lead the implementation of the project, facilitating financial inclusion among women (refer page 66). Within the Company, we promote **gender diversity** in our workforce with 18% female representation at management level. (refer page 33)

13 CLIMATE ACTION

We installed a **solar-powered car charging** system offering free charging facilities to all employees. Also 72% of our marketing fleet was replaced with **hybrid vehicles.** (refer page 59)

6 CLEAN WATER AND SANITATION

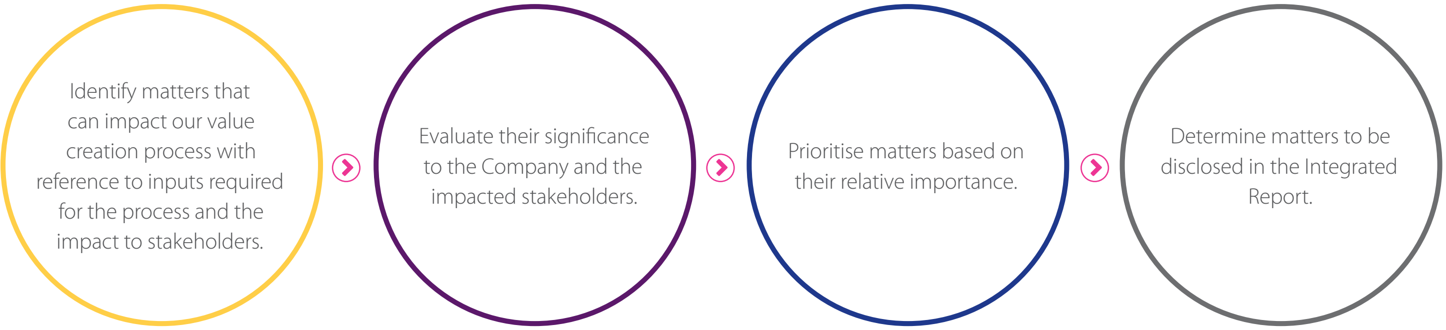
To date CTC has constructed **100 agro-wells in drought stricken areas** in the Mulativu District at an investment of Rs. 24 million. (refer page 64)

17 PARTNERSHIPS FOR THE GOALS

We have **partnered other corporates and institutions** in replicating the SADP model in different communities. (refer page 64)

Defining Materiality

The content included in this Report is selected through a systematic materiality analysis, which ensures that our corporate reporting remains relevant and addresses stakeholder concerns. Material topics represent emerging risks and opportunities in the operating landscape, stakeholder concerns, strategic aspirations, organisational competencies and other factors, which may affect our ability to create value. The process for determining material topics is as follows;



These themes and issues have been summarised and consolidated as a list of material topics, listed below. This year, to enhance the readability and relevance of our Report, we have structured the narrative reporting based on these topics. Accordingly, page 22 to 69 comprises separate chapters, which provide an overview on how each material topic is managed, developments during the year, challenges, performance indicators and outlook. This approach has enabled us to present a concise and focused discussion on factors that are most relevant to the Organisation and to its stakeholders.

Material Topic 1	Our Brands
Material Topic 2	Distribution and Retail
Material Topic 3	People Management
Material Topic 4	Safe Working Environment
Material Topic 5	Product Responsibility
Material Topic 6	Manufacturing and Operational Efficiencies
Material Topic 7	Leaf and Non-leaf Suppliers
Material Topic 8	Corporate Behaviour
Material Topic 9	Tackling Illicit Trade and the Beedi Market
Material Topic 10	Environmental Impacts
Material Topic 11	Community Engagement

Material Topic 1

Our Brands

IMPORTANCE TO OUR BUSINESS

Our portfolio of brands plays a key role in our growth strategy, catering to a diverse array of consumer preferences. Introducing differentiated product offerings has enabled us to counter the adverse effects of steep price increases to a certain extent.

RELEVANT STAKEHOLDERS

Consumers

Distributors

Retailers

RELEVANCE TO OUR STRATEGY

Growth

RISKS TO THE BUSINESS

- Increasing competition from the booming illicit and beedi markets.
- Impacts of product price increases on consumer affordability.
- Evolving consumer preferences.

HIGHLIGHTS IN 2017

- Launched the JPNC during the year.
- Dunhill achieved a 6% growth despite the 43% price increase.

Portfolio of Brands

Brands	
DUNHILL	Catering to the premium segment of the market, Dunhill is synonymous with innovation, quality and novel experience. Present in Sri Lanka for over 10 years, Dunhill enjoys a market share of around 4%.
JOHN PLAYER GOLD LEAF	CTC's leading brand, with a market share of 79%. JPGL caters to the aspirational premium segment of the market and has been present in Sri Lanka for over 65 years.
BRISTOL ORIGINAL	Catering to the value for money segment, Bristol has recorded strong growth over the past few years due to excise-led price pressures. Currently accounts for around 9% of the market.
CAPSTAN	Capstan caters to the low-end segment and is the only non-filtered cigarette in the market. Currently enjoys a market share of around 7%.

Strategy and Management Approach

The 43% price hike in 2016 continued to significantly impact consumer affordability and in 2017 we revisited our brand strategy to address and effectively respond to these pricing dynamics. Having effectively identified consumers' pricing preferences, we adopted a strategy centred on market segmentation and price differentiation. During the year we successfully launched John Player Navy Cut (JPNC), an attractively priced, mid-length cigarette catering to the price sensitive segment of the aspirational premium market. The response for JPNC has been extremely encouraging, with the brand achieving 5% share within 3 months of launch, a testament to the excellence in execution of the campaign, JPNC achieved commendable results on consumer reach and brand awareness within a very short period.

We launched JPGL RED during the year, a value-added product for our aspirational premium consumers at the same price as regular JPGL. Furthermore, we maintained a high level of engagement with our distributor and retailer network during the year, to effectively communicate new attributes and product propositions to the market.

Marketing Team

Results

CTC volumes declined by 18% during the year, as consumer affordability continued to be pressured by the steep increase in the price of legal cigarettes since the fourth quarter of 2016. It is disturbing that the contraction in the legal market does not reflect a drop in overall consumption, as the illicit market has ballooned due to the increasing price disparity between legally manufactured and illegal, unauthorised products. Our dominant brand JPGL, experienced a drop in its market share to 79% from 83% the previous year. The value for money brands, Bristol and Capstan performed relatively well during the year, reflecting changes in consumption patterns. Despite the volatility in cigarette pricing, our premium segment Dunhill continued to grow by 6% over last year in 2017.

Way Forward

We will continue to identify and respond to evolving consumer preferences and market dynamics by reviewing and redesigning our product and portfolio strategy. The alarming growth in the illicit market has encouraged us to renew our efforts in combatting the same, and we will continue to protect consumers from smoking substandard products by supporting the Government in curbing illicit trade and preventing such products from entering the local market.

Globally, the consumption of cigarettes is on the decline while consumer appeal has grown for new types of tobacco and nicotine products, which are potentially less risky. As a subsidiary of BAT, we benefit from the world-class research efforts of our parent entity in developing innovative solutions such as additive-free products and tube filters as well as Next Generation Products such as vapour and tobacco heating devices.

Our Products

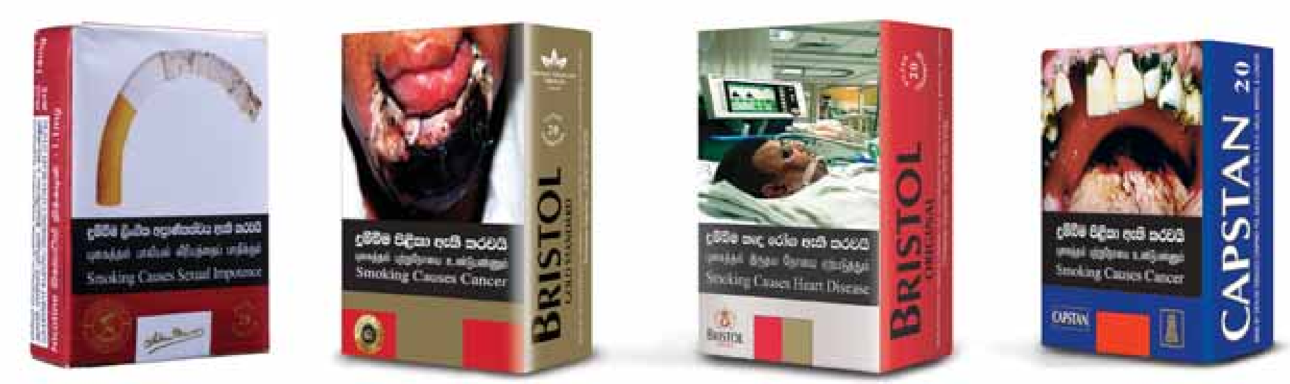
DUNHILL Fine Cut | DUNHILL Switch | DUNHILL Blue | DUNHILL Grey

BENSON & HEDGES (B&H)

JOHN PLAYER GOLD LEAF (JPGL) 20's Pack

JOHN PLAYER GOLD LEAF (JPGL) 12's Pack

JOHN PLAYER GOLD LEAF RED (JPGLR) 20's Pack



JOHN PLAYER NAVYCUT (JPNC) | BRISTOL Gold | BRISTOL Original | CAPSTAN

GOVERNMENT WARNING: SMOKING CAUSES CANCER රජයේ අවවාදය: දුම්බීම පිළිකා ඇතිකරයි அரசாங்க எச்சரிக்கை: புகைத்தல் புற்றுநோயை உண்டுபண்ணும்

Material Topic 2

Distribution and Retail

IMPORTANCE TO OUR BUSINESS

An efficient and reliable distribution network ensures that we can offer the products adult consumers wish to buy, where and when they want them. Since direct engagement with consumers is restricted by law, the platform created by retailers to facilitate indirect consumer engagement is critical in obtaining insights into consumer preferences.

RELEVANT STAKEHOLDERS

Distributors

Retailers

RELEVANCE TO OUR STRATEGY

Growth **Sustainability**

RISKS TO THE BUSINESS

- Undue pressure exerted through unlawful enforcements (stop sale campaigns etc.) on traders and retailers by the Government authorities.
- The Government's extreme regulatory proposals such as the 100-meter radius rule and stick sale ban could have a devastating effect on the livelihoods of tobacco traders.

HIGHLIGHTS IN 2017

- Consolidated and optimised the distribution network.
- Strengthened distributor standards.

Profile of Distributors and Retailers

Our products reach end-consumers through an island-wide network of 16 distributors and 72,000 retailers. A unique value proposition built on mutual understanding and collaboration has enabled us to nurture long-term relationships with our distributors, with the majority partnering us for more than 50 years.

Total distributors	16
Relationship of 50 years or more	11
Relationship between 25-50 years	3
Relationship of less than 25 years	2

Strategy and Management Approach

In 2017, we placed emphasis on enhancing the efficiency of our route to market by consolidating and driving growth through our high potential markets. The Company's distribution capabilities enabled the new product innovations during the year to reach end consumers quickly and efficiently. We continued to maintain a high level of engagement of with our distributors and retailers facilitated by multiple platforms including the Customer Voice Survey, Distributor Staff Awards and ongoing communication on products through brand awareness programmes. The Customer Voice Survey is administered to CTC's exclusive distributors and retailers with the objective of gaining insights on customer expectations and identifying areas for mutual value creation. The survey has a broad coverage of all relevant market segments, including general trade, modern trade, hotels, restaurants and cafes among others. The feedback thus obtained forms an input in formulating retailer engagement mechanisms, trading terms and conditions, and strategies for enhancing service levels. In 2017, we also presented 9 awards to our distributors at the Pinnacle Awards, which recognises the contributions of our exclusive channel partners.

In recent years our retailers have faced mounting pressure due to the unlawful enforcement of regulations by certain Government authorities, thereby jeopardising the sustainability of their businesses. In response to these pressures, the retailers formed the Tobacco Retailers' Association during the year, providing an effective platform for engagement. With a membership of 7,500, the Association presented several petitions to the Government voicing concerns over the restrictions placed on the legal industry and the resultant boom in illicit trade. CTC supported the association in 2017 and will continue to do so as it pursues fair operating conditions and a level playing field.

We also continue to make progress in widening the scope and coverage of our trade loyalty and distributor development programmes. 'Abhisheka' for retailers, is a wide-ranging loyalty programme, which provides a range of trade benefits and offers on a variety of products and services including consumer electronics, leasing services, hospitality and education among others.

Material Topic 2 : Distribution and Retail

Regional Marketing Team - Colombo

'POSITIVE' for distributors, was conducted with the aim of enhancing business sustainability of distributor representatives through training programmes designed to develop core competencies and capabilities. In 2017, we further widened the scope of our distributor standards to encompass aspects such as employee management, transportation and stocking, which will contribute towards improving the profitability and sustainability of distributor operations.

Results

During the year we invested over Rs. 90 million in 'Abhisheka' and 'POSITIVE', with the aim of strengthening our distributor and retail partners. Our 'Abhisheka' network further reinforced 6,250 retail outlets across the island while 'POSITIVE' supported over 100 distributor representatives island-wide. In 2017, we also conducted around 30 training programmes covering distributors and our trade staff via the 'POSITIVE' programme, building capacity at both supervisory and managerial level.

Way Forward

Ongoing focus will be placed on consolidating and optimising our route to market to further improve distribution efficiencies in 2018. Furthermore, our focus on the entertainment channel – HORECA, will be further enhanced during the year with significant investments to help align marketing initiatives with the ongoing trends in the sector. We will also continue to engage with our business partners in raising awareness on laws and regulations, strengthening distribution capabilities and contributing towards the business standards and sustainability of their operations.

Name of Distributor	Length of Relationship (Years)
Colombo	
Arunadisi Ltd	89
W. D. Paulis Appuhamy & Co.	85
Samaranayake & Co. (Pvt) Ltd.	66
Jayawardene & Sons	33
Excel Distributors (Pvt) Ltd	13
South	
S. U. Mohamed Hadjiar (Pvt) Ltd	86
P. D. Pedoris Appuhamy & Co. (Pvt) Ltd	86
Wickramaratne Distributors (Pvt) Ltd,	31
Central	
Bibile Trading & Forwarding Agency	73
Gamani Bros Ltd	61
Ampara MPCS Ltd	53
Amirthans Distributors (Pvt) Ltd	31
North	
D. S. Gunasekera Ltd	61
G. H. A. De Silva & Co.	61
Kurunegala Merchants Ltd	51
Maldives	
OCC Investment PVT. LTD	4

Material Topic 2 : Distribution and Retail

OUR DISTRIBUTORS


Kalana Hewamallika


Chandana Wickramaratne


Niral Kadawatharachchi


Harith Jayawardene


Thiwanka Jayakody


Sivapathesundaram Gnanasambanthen


Mohammad Mumtaz


Sellathurai Amirthalingam


Krishanthi Yahampath


Swineetha Gunaratne


Roshan Samaranayeke


Muditha Wijesinghe


Mohammad Hamza


Chaddantha Wijesinghe


Piyadasa Lekamwasam

Material Topic 3

People Management

IMPORTANCE TO OUR BUSINESS

Our people and their spirit is a key source of competitive advantage to CTC, enabling us to remain resilient in difficult operating conditions. We invest in our people providing opportunities for career and skill development in a dynamic and rewarding work environment.

RELEVANT STAKEHOLDERS

Employees

RELEVANCE TO OUR STRATEGY

Winning Organisation

Productivity

Sustainability

RISKS TO THE BUSINESS

- Difficulties in attracting talent due to the stigma associated with our industry.
- Maintaining staff morale and motivation in the current operating context.

HIGHLIGHTS IN 2017

- Achieved best your voice scores in CTC history.
- Awarded 29 G32+ employee promotions.
- Ensured 82% G32+ employees received training.

Team Profile

The unique employee value proposition we offer makes us one of Sri Lanka's most preferred employers. Every year we make substantial investments in inspiring and developing high-performing leaders who have the right skills and fortitude to drive our strategic ambitions. Our team consists of 271 talented, dynamic individuals who are diverse in their gender and age representations. (Refer table below)

Strategy and Management Approach

The Company's human resource related aspects are governed by best in class, formalised policy frameworks and governance structures, which ensures transparency, uniformity in application and fair treatment of all employees.

Board of Directors

Board Compensation and Remuneration Committee

Managing Director and CEO

Human Resources Director

Our employment policies and procedures are designed to ensure,

- Equal opportunities to all potential and existing employees;
- Decent work for all employees, irrespective of gender, age, ethnicity or disability;
- Harassment free and non-discriminatory work environment; and
- The protection of labour rights and assurance of a safe and secure working environment.

The Company's HR agenda for 2017 was developed to address employee expectations and concerns from mounting industry pressures and unmerited external criticism. Understandably, employee morale has suffered over the past few years following increasing concerns on the sustainability of the business, given the tough operating and regulatory conditions. We sought to directly address these concerns through a strong people agenda designed to inspire belief and instil confidence regarding the 2020 ambition. Key pillars of the Company's HR strategy in 2017 were,

Develop talent as a competitive advantage

Energise employees around the Company's strategic agenda

Address organisational effectiveness and efficiency

	Management (including G33 and MT's)	Executives	Clerical	Shop Floor
Male	75	59	5	102
Female	17	12	0	1
Total	92	71	5	103

Material Topic 3 : People Management

- **Develop talent as a competitive advantage**

Our long-term culture has been about developing talent from within, stretching and supporting high-performing employees who drive our strategy. In 2017, we focused on further strengthening the talent pipeline through multiple interventions to identify young talent and drive capability enhancement. The G33 Development Programme was launched during the year to identify high-performers in the grade and groom them through a portfolio of functional and leadership programmes. We also launched a holistic learning proposition for these young high-performers featuring experiential learning and mentoring.

- **Energise employees around the Company's strategic agenda**

Employee engagement and communication during the year was aimed towards energising and rallying the Organisation around the Company's 2020 Ambition and strategy which includes the 6 strategic focus areas known as 'Game Changers'. Several initiatives were driven during 2017 to strengthen employee belief while creating ownership. During the year, we also placed much emphasis on 4 winning behaviours that CTC employees should embrace and actively drive to achieve the Company's ambition. We carried out several training programmes designed to create understanding and buy in around these 4 behaviours ensuring 100% coverage of the management and executive cadre.

During 2017 we also nurtured a culture of recognition across the Organisation, providing a platform for employees to share and showcase the winning behaviours. 43% of our team received this opportunity.

- **Organisational effectiveness and efficiency**

BAT is continuously driving towards a more effective and efficient, globally integrated, organisation by utilising global systems and ways of working. CTC aligned itself with this global agenda by on-boarding the Group's single global SAP system ensuring back-office activities are carried out more efficiently freeing up employee time and effort to drive strategic aspirations. The drive to a globally integrated enterprise has been most apparent in traditional HR, Finance and IT functions with all related transactions now being handled in Malaysia.

Developing Next Generation Leaders

Talent Attraction

The Company's reputation for nurturing and developing employees in a rewarding and exciting environment has enabled it to attract the best talent in the market. However, rising external pressures and unmerited criticism of the Company's operations in recent times has inserted pressure on our ability to attract and retain talent. While the Company's HR strategy has been reviewed and revamped to address the issue of retention, continued difficulties in attracting the people with the right skills and attitudes could significantly affect the Company's ability to create value over the long-term.

In the face of these challenges, CTC's HR agenda on talent attraction expanded to a few new territories. Building the CTC Employer Image via the launch of the 'Talent Brand', increased presence in the selected tertiary educational institutions in the country and creating novel ongoing university interactions are some of the new initiatives leveraged by the Company.

Employee Retention

Continuous focus on engaging employees, investing in their development and providing attractive reward schemes have enabled CTC to maintain relatively low staff turnover levels. While we had no loss in hi-potential employees during the year in review, 20 employees voluntarily left employment, translating to a turnover rate of 7.3%.

Equal Opportunity and Diversity

We are an equal opportunity employer and do not discriminate on the grounds of gender, race, religion or social class when making decisions on recruitment and promotions. Diversity is a global priority for the Group, and since 2013 the 'Women in Leadership' programme has supported and accelerated the career progression of female talent within the Group. We have aligned ourselves with the Group's diversity ambitions and continue to widen female representation through ensuring balanced access at entry level, providing opportunities for flexible working, increasing maternity benefits and facilitating platforms for engagement. Proactive efforts to develop female leaders has resulted female representation in management roles increasing to 18% in 2017, from 16% in 2016.

Employee Engagement and Organisational Culture

The high level of engagement we maintain with our team enabled us to effectively convey our message of confidence during the year. In recent years, our engagement mechanisms have aimed to nurture an open culture, facilitating communication across all levels of the Organisation. Employees are given the opportunity to directly engage with the Company's senior management on current business realities and growth prospects, while factory workers also engage with management through numerous platforms including monthly small group meetings. Key engagement platforms include:

- "Tribal Talk" - quarterly meetings conducted with the participation of the Executive Committee and all management and executive level employees;
- Meetings with union representatives (refer industrial relations below);
- Employee satisfaction surveys;
- Sports and cultural events;
- Monthly team outings and team building sessions; and
- CTC Night – the annual dinner dance among others.

A structured employee grievance mechanism is also in place ensuring confidentiality, an impartial hearing and follow-up action if deemed necessary. In general, all grievances are responded to within 10 days of initial communication and during the year a total of 18 grievances were reported, addressed and resolved.

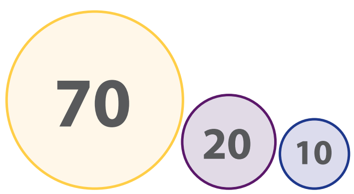
Human Resources Team

Material Topic 3 : People Management

Training and Development

Inspiring our team to excel is a vital part of our Organisational culture, facilitated by a comprehensive talent development framework. Our talent proposition to our employees includes numerous structured and on-the-job training opportunities, cross functional and international exposure and stretch projects among others. Training needs are identified through a structured process, which consists of gathering inputs, identifying strengths and areas for development and formulating options for development. Our approach towards learning and development embodies a 70:20:10 philosophy as depicted below.

70 ON THE JOB	Increased decision making / problem solving in current role Cross-functional introductions, field / customer visits Interaction with senior management, e.g. meetings, presentations Work with internal experts or consultants Job rotation (role swaps); stretch assignments; project work
20 FROM OTHERS	Coaching Mentoring Communities of practice Assessments, 360^{0} feedback Learning through teams / networks External networks / contacts
10 FORMAL TRAINING	E-learning Online courses Conferences Seminars Classroom training



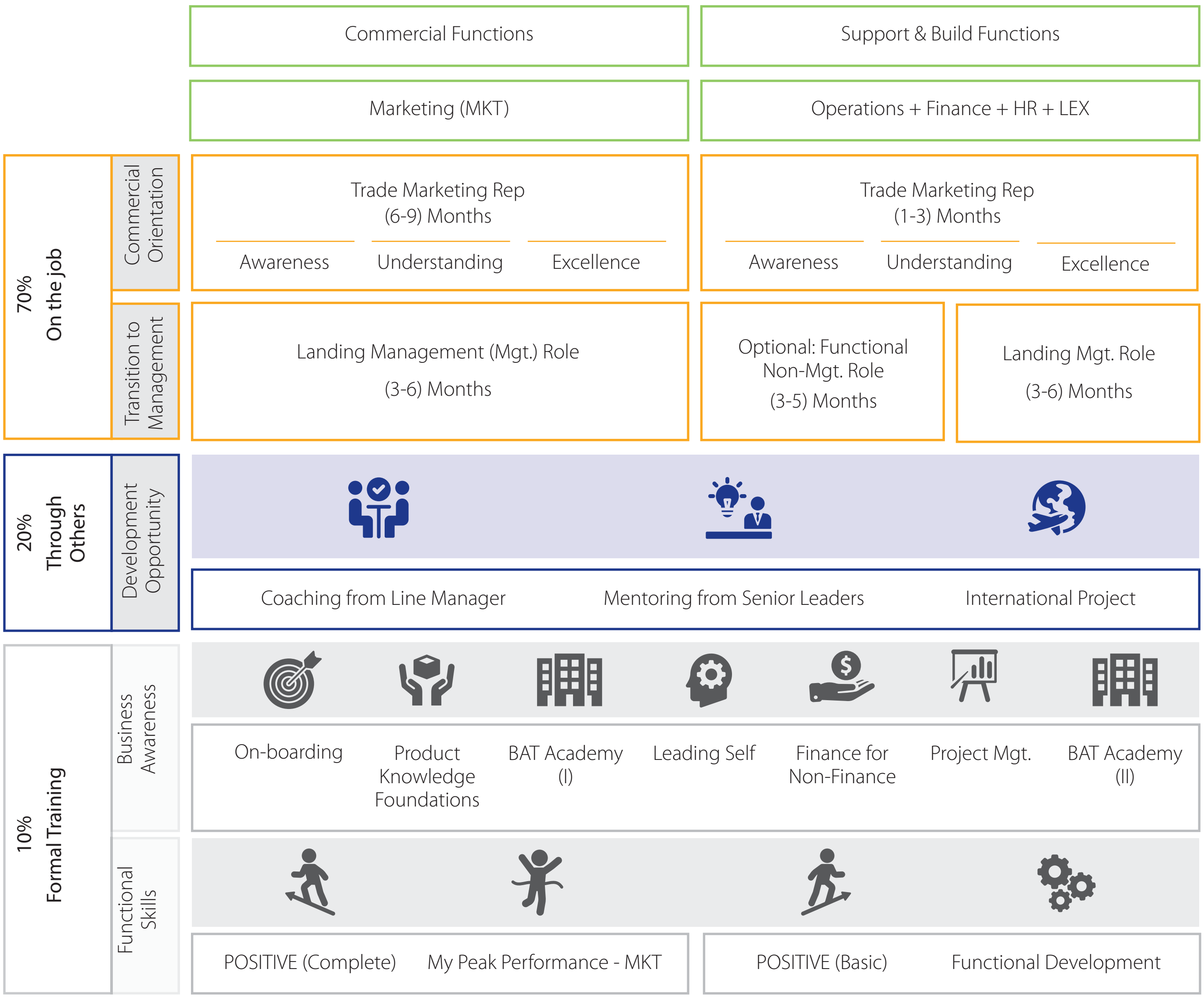
During the year, training and development initiatives were focused on strengthening line manager capabilities through leadership and motivational training, talent development at Assistant Manager grade and equipping employees with the skills required to drive our strategy. In 2017, we invested Rs. 55 million, providing a total of 4,103 training hours to 85% of our employees. Our training calendar for the year included the following training programmes.

Training Programmes	No. of Participants
Corporate Induction	25
LeAP	28
Product Knowledge Foundation	33
Everybody is a Leader	45
Leading Self	13

Global Graduate Programme

BAT's Global Graduate Programme is an accelerated 1- year initiative, which gives our emerging talent international exposure and commercial acumen, supported by collaborative, world-class development. Since its introduction many Sri Lankan youngsters have obtained the opportunity to be part of this unique programme.

In 2017 we successfully recruited 02 female Global Graduates to strengthen our talent pipeline, whilst demonstrating our commitment towards gender diversity.



Structure of Global Graduate Programme

Material Topic 3 : People Management

Fast Track 15 Internship Programme:
Conducted in partnership with John Keells Holdings and Commercial Bank of Ceylon, the Fast Track 15 is one of Sri Lanka's most pursued internship programmes. The interns receive industry exposure in 9 sectors, followed by extensive project work in each of these companies.

Structured Internship Programme:
Attracting over 100 undergraduates and postgraduates from local and foreign universities every year, the programme provides a 3 or 6-month structured learning opportunity comprising of coaching and periodic evaluations.

Industrial Relations

We understand our employees' right for freedom of association and collective bargaining and always strive to ensure that the rights of our employees are protected in the workplace. Union representation in the Organisation is around 38% of the total workforce and comprises non-executive employees. These employees are covered by a collective agreement, which forms the foundation for harmonious industrial relations with the employees. We engage proactively with union representatives on a regular basis and have continued to maintain an open and congruous relationship with them for over two decades. During the year, we reaffirmed a record of zero lost workdays stemming from industrial action.

Remuneration and Benefits

The Company's performance management systems have been strengthened to drive merit-based rewards and career progression. All permanent employees have annual performance evaluations through which training needs and further areas for improvement are identified. We offer a host of attractive financial and non-financial remuneration including the following:

- Allowances
- Death mutual benefit scheme
- Distress relief scheme
- Gratuity
- Medical facilities: Staff medical centre
- Motor vehicle loans and reimbursement of fuel
- Provident fund loans
- Scholarship schemes for employees' children
- Fully equipped gym and a recreational centre

Employee productivity is a key measure of performance and is evaluated through multiple indicators based on employee job descriptions. Effective feedback during annual performance reviews as well as continuous coaching and development initiatives ensure that consistent improvements in employee productivity are a core expectation.

'Your Voice' Employee Satisfaction Survey

The BAT Group conducted its employee satisfaction survey 'Your Voice' once again in 2017 covering all the end markets across the globe. The survey was administered to all employees, seeking feedback on 11 key areas including employee engagement, talent development, leadership and strategy, communication and recognition and rewards. Our employees scored CTC above 75 in all survey categories, a significant increase in comparison to the 2014 results. We are extremely happy to report that in 2017, CTC scored the best 'Your Voice' results in both the Company's history as well as within the South Asia Cluster of the BAT Group. These results are testament to CTC's world class people strategy and culture.

Way Forward

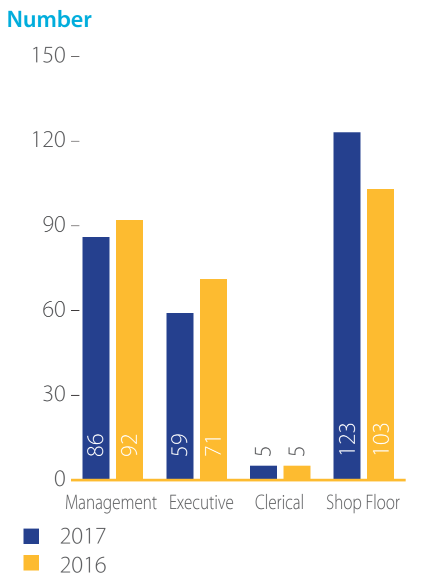
The management team is fully committed towards driving a winning people agenda and we are cognisant that the expectation of stretched delivery can only be achieved by continuously enhancing our employee value proposition and winning people strategies. With external pressure on our industry likely to remain at the same level or increase over the next year, clearly communicating our business realities to employees and maintaining their confidence has never been more pertinent. Strategic focus areas for 2018 include developing our talent brand externally, upskilling and strengthening our talent pipeline and embedding the 4 winning behaviours across the Organisation.

Shift meetings	Daily meetings	Monthly meetings	Quarterly meetings
Shift executive, Union representative	Industrial relations manager, Union representative	Production manager, Industrial relations manager, Union representative	Head of supply chain, Head of HR, Production manager, Industry relations manager, Union representative
Discussion on shift related issues such as hygiene, cleanliness and production related issues.	Morning meeting updates, quality and production issues and administrative issues.	Update on business position and challenges.	Update on regional / area performance and targets.

Meetings conducted for employees

Human Resources Team

Employees by category

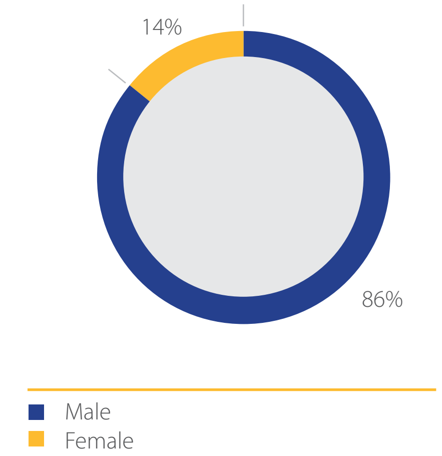


Employees by category and gender

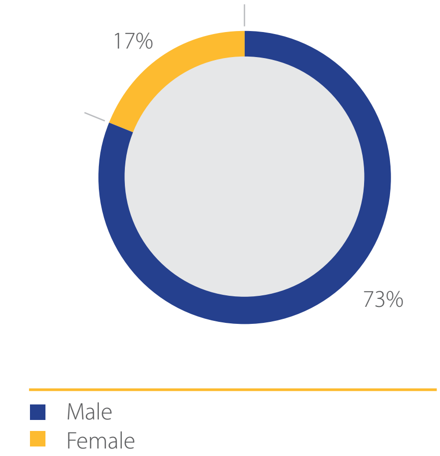
Employees by category and age

Material Topic 3 : People Management

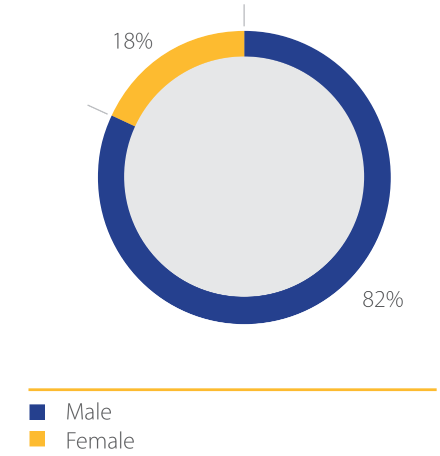
Executive Committee



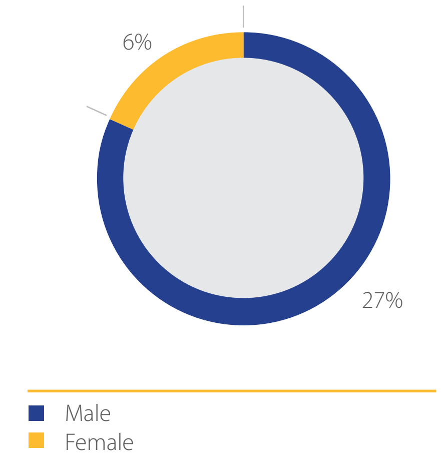
Extended Leadership Team



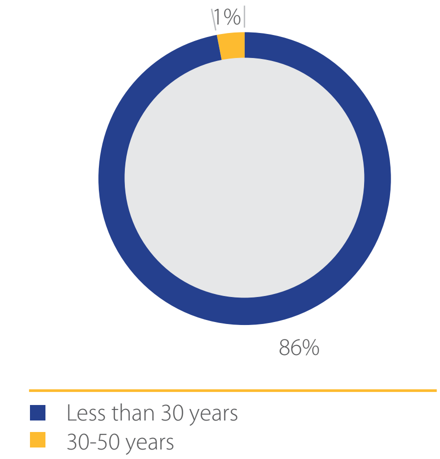
Management cadre



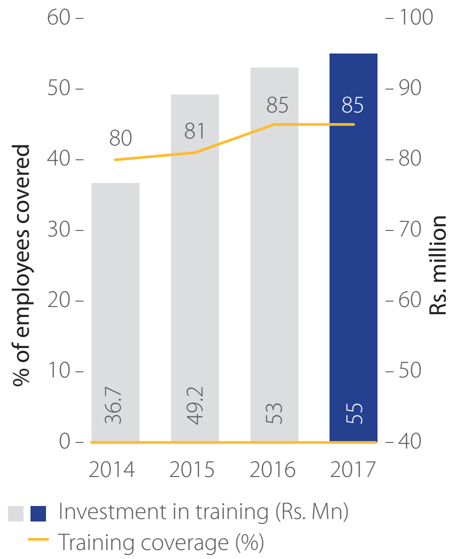
New hires by gender



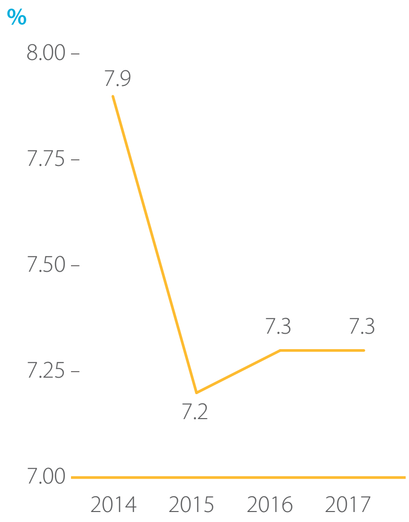
New hires by age



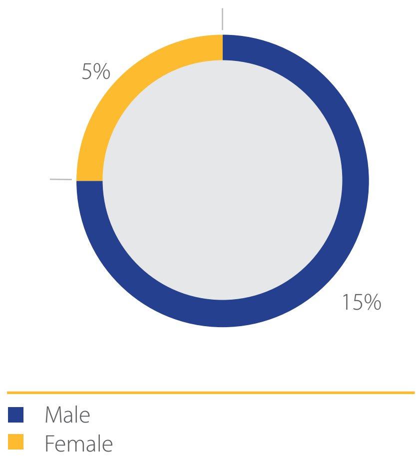
Training in 2016



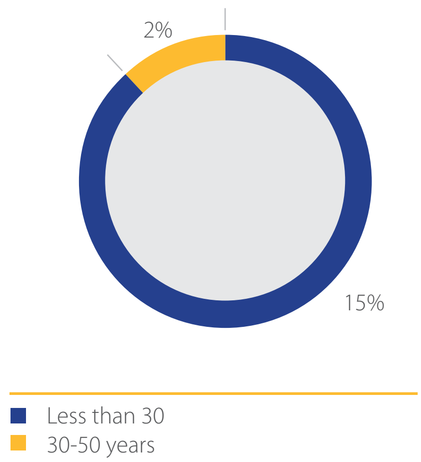
Employee turnover



Turnover by gender



Turnover by age



Material Topic 4

Safe Working Environment

IMPORTANCE TO OUR BUSINESS

As an Organisation engaging in manufacturing activities, we are committed to providing a safe working environment for all our employees, suppliers and any person undertaking work on behalf of the Company.

RELEVANT STAKEHOLDERS

Employees

Regulators

RELEVANCE TO OUR STRATEGY

Winning Organisation **Productivity**

RISKS TO THE BUSINESS

- Injuries at the workplace could result in adverse impacts on employee morale, productivity and lead to increased costs and reputational damage.

HIGHLIGHTS IN 2017

- Achieved 14th consecutive year of zero accidents.
- Launched NEARMISS mobile application.
- Initiated plans to extend EHS practices to business partners.

Strategy and Management Approach

CTC's approach towards safety at the workplace is aligned with the BAT Group's integrated EHS (Environment, Health and Safety) guidelines. A comprehensive suite of policies is in place to govern all health and safety (H&S) aspects. The governance structure includes a cross-functional EHS Steering Committee, which meets quarterly to monitor health and safety performance parameters and identify areas for continuous improvement. Employees undergo relevant health and safety related training on a regular basis and compliance to the Company's standards are covered in collective agreements with trade unions.

EHS Steering Committee

EHS Manager

Departmental Committees

Operational Level Committees

The following health and safety initiatives and practices have been implemented across the Organisation:

Reporting Near Misses

All employees are encouraged to report potential safety risks and hazards utilising mobile technology. Follow-up on all reports are actioned by the EHS Manager. In 2017, a NEARMISS mobile application was launched to improve the convenience of reporting and increase efficiency of the entire process. Operational level employees have also been given quarterly targets for incident reporting with the objective of driving a culture of safety awareness across the Organisation.

During the year, we also actioned plans to extend our EHS practices across our supply chain; accordingly, we introduced near miss reporting to our 3rd party logistics partner.

Wellness Centre

Tailor-made advice is offered to all employees on nutrition, healthy living and exercise plans at the Company's dedicated health and wellness centre.

PULSAR

Involves the mutual observation of employees' safety behaviour and providing reinforcement on positive aspects, which is expected to condition employees to continuously adopt these behaviours. During the year, the number of trained observers were increased to 72 with the logistics service provider's involvement in behaviour observations while the observation rate increased to 90%. This programme has extended to all CTC's factories and Colombo warehouses.

Nurturing a Culture of Safety

Numerous employee engagement mechanisms are in place to nurture a culture of safety and awareness across the Organisation; these include monthly safety walks, H&S briefings for new employees and EHS Moments at all staff meetings. All safety equipment such as helmets and lightweight shoes provided to field force and factory employees adhere to international safety standards.

Results

CTC's H&S record is amongst the best in the BAT Group; it achieved its 14th consecutive injury free year in 2017 and is one of just three BAT companies in the Asia Pacific region to do so.

Way Forward

Having consistently demonstrated our ability to maintain an accident-free environment, next year we intend to go beyond zero accidents to eliminate even minor injuries such as scratches and bruises. This will be achieved through ongoing focus on our numerous safety initiatives and continued employee engagement. We also hope to introduce PULSAR and NEARMISS to our supplier base, with the objective of propagating strong health and safety practices among our business partners and ultimately ensuring that the entire tobacco supply chain is hazard-free.

Environment Health and Safety Team

Material Topic 5

Product Responsibility

IMPORTANCE TO OUR BUSINESS

Given the health risks associated with our products it is vital that they are produced and marketed in a responsible manner.

RELEVANT STAKEHOLDERS

Consumers

Distributors and retailers

Regulators and the Government

RELEVANT TO OUR STRATEGY

Growth **Sustainability**

RISKS TO THE BUSINESS

- Non-compliance to product and marketing related regulations could result in litigation, reputational damage and financial losses.

HIGHLIGHTS IN 2017

- Recorded zero instances of non-compliance to any product or marketing related laws or regulations.

Product Standards

We strive to consistently satisfy consumer needs in a responsible manner, effectively addressing regulators' expectations on how our products should be marketed. All CTC's products are manufactured in line with BAT's industry leading product standards, which benefit from world-class science, global consumer patterns and innovative technology. Ingredients input into our products obtain a food-grade certification and we maintain a very high level of product integrity and traceability. During the year there were no incidents of non-compliance with regulations or voluntary codes with regards to our products or the provision and use of products.

Responsible Marketing

We understand the importance of providing clear and meaningful information on the risks associated with our products to enable adult consumers to make informed choices. All our marketing communications are governed by BAT's International Marketing Principles (IMP) which are in some instances more restrictive than the NATA Act. The IMPs comprise of four core values and make it clear that we will only market cigarettes to adult smokers and demonstrates our commitment to always be truthful about the risks of smoking.

During the year there were no breaches of any laws or regulations and no negative verdicts, judgements or court orders against the Company in relation to our marketing practices or communications.

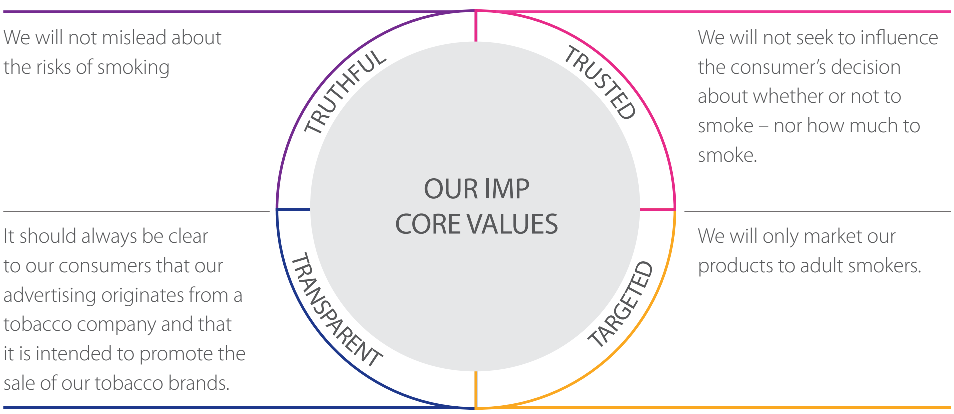
According to the regulatory guidelines in place, we are required to display the following on our product packaging.

- Trilingual text health warning;
- TAR and Nicotine content; and
- Graphical health warning covering 80% of the top surface area of the front and back of the pack;

During the year under review there were no instances of prosecutions or findings of non-compliance to this regulation.

Preventing Youth Smoking

The IMPs consist of stringent guidelines to ensure that we market our products only to adult smokers over the age of 21. In addition,



we also work with our retailers and traders to prevent under-age access through supporting age-proof schemes, raising awareness on relevant laws and requirements and supplying in-store communication material. According to the WHO, Sri Lanka has one of the lowest prevalence of teen smoking in the world, at just 1.7%.

Harm Reduction

As a key pillar of the BAT Group's sustainability strategy, harm reduction aims to provide adult smokers the choice of switching to alternative products with lower health risks. Over the last five years, BAT has invested over USD 1 billion in building a range of alternatives to smoking referred to as Next Generation Products, which include tobacco heating products and vapour products (e-cigarettes). BAT was the first international tobacco company to launch a vapour device and the first to have a nicotine inhalation product licensed as a medicinal product in the world. The vapour and tobacco heating products are available to consumers across 12 BAT markets.

Material Topic 6

Manufacturing and Operational Efficiencies

IMPORTANCE TO OUR BUSINESS

Continuously improving our manufacturing operations and efficiencies can result in reduced labour and maintenance costs as well as improvements in our environmental footprint.

RELEVANT STAKEHOLDERS

Shareholders

Employees

RELEVANCE TO OUR STRATEGY

Growth **Sustainability**

RISKS TO THE BUSINESS

- Increased costs stemming from inefficiencies and wastage.
- Impacts on product quality and customer satisfaction.
- Impacts to employee health and safety.

HIGHLIGHTS IN 2017

- Placed significant focus on driving IWS and achieved improvements in OEE and MTBF.
- Achieved productivity savings of Rs. 170 million.

Strategy and Management Approach

Driving productivity savings is a strategic focus and during the year we continued to seek better ways of working through enhancing our manufacturing capabilities, operational efficiencies and technology footprint. We are accruing the benefits of Integrated Work Systems (IWS), a programme that is designed to transform manufacturing processes to maximise equipment efficiency while ensuring the highest standards of product quality. IWS features 12 pillars and 75 criteria to eliminate inefficiencies and these include work process improvement, progressive maintenance, quality, focussed improvement, autonomous maintenance, and education and training. During the year, emphasis was placed on,

- Training and upskilling employees;
- 'Stop the stops'- proactively identifying and addressing areas in which efficiency is below optimum; and
- Enhancing equipment efficiency and increasing the mean time between failures (MTBF).

Employee attitudes are central to driving IWS, and CTC benefits from a young and energetic manufacturing team. During the year, we invested Rs. 5 million in IWS-related employee training, which included international exposure in BAT's regional factories.

In the current market conditions, ability to respond to evolving customer needs rapidly is a source of competitive advantage. During the year, we achieved timely and successful delivery of two new product formulations (JPNC and JPGL Red), attesting to the flexibility of our manufacturing technology, processes and people.

Investing in Technology

In 2017, CTC invested in its primary (PMD) and secondary (SMD) manufacturing plants to further improve efficiencies. One of the key wins for the Company was the successful installation of the Lamina Dryer with reduced lead times and no impact to business operations. Furthermore, our manufacturing team also ensured a 100% local, installation of the new KDF machine, which not only brought about significant cost benefits for the Organisation but was testament to the impressive technical skills of our people.

Results

Ongoing focus on IWS has enabled CTC to achieve continued improvements in equipment efficiency. We maintained an overall equipment efficiency (OEE) of 60.7% at our manufacturing plant despite operating with older technologies and other external challenges, which impacted production. The team was also successful in improving meantime between failures (MTBF) over the year.

We recorded 83 and 94 in the quality to consumer index and quality to specification index respectively, in 2017, the highest recorded in the South Asia Cluster. Furthermore, CTC recorded the lowest consumer complaints registered in the history of the Company's operations, which was at 10.5 complaints per billion sticks sold.

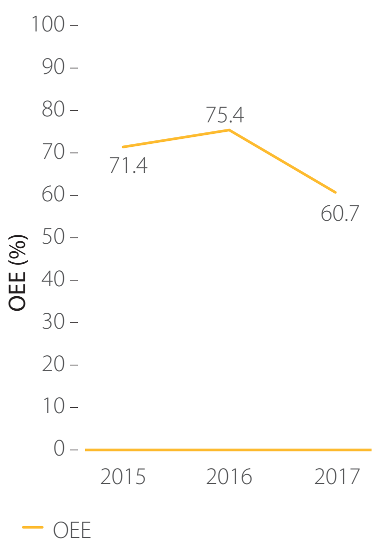
In 2016, we launched over 200 projects of varying magnitudes to drive productivity savings. We continue to derive the benefits of these initiatives and in 2017 yielded over Rs. 170 million in savings.

Manufacturing Team

Way Forward

In 2018, efforts will be driven towards obtaining the IWS-Phase 1 certification making CTC the second factory within the BAT universe to do so. We will continue to work towards driving cost effectiveness, productivity savings and eliminating inefficiencies in our quest to achieve manufacturing excellence. We are also currently seeking ways to further enhance our manufacturing flexibility, which will enable more effective product differentiation to ensure timely market delivery.

Manufacturing efficiency



Material Topic 7

Leaf and Non-leaf Suppliers

IMPORTANCE TO OUR BUSINESS

Tobacco leaf is the most essential part of a cigarette, therefore the farmers who grow it are a vital part of our value creation process. The efficiency and sustainability of our supply chain determines continuity of production, quality of products and our ability to meet customer requirements.

RELEVANT STAKEHOLDERS

Tobacco farmers

Non-leaf suppliers

Employees

RELEVANCE TO OUR STRATEGY

Productivity **Sustainability**

RISKS TO THE BUSINESS

- Unlawful pressure on farmers by Government authorities to abandon tobacco cultivation will impact leaf sustainability.
- Mismanagement of supply chain operations and non-leaf suppliers could affect continuity of production as well as quality and integrity of our products.

HIGHLIGHTS IN 2017

- Purchased 100% of our leaf requirement locally by working closely with farmer networks to boost crop yields.
- Achieved the highest Maha Crop in the history of the Company.

Leaf Suppliers

Strategy and Management Approach

CTC does not own tobacco farms or directly employ farmers, but we work with over 20,000 farmers across the country who supply our tobacco leaf requirement. We have a proud history of partnering and supporting their socio-economic progress and advancing sustainable agricultural practices. Our holistic value proposition to farmers has helped us to develop a secure supply chain and ensure the quality and integrity of raw materials. The Company also sources packaging and other raw materials from local and foreign non-leaf suppliers.

Unfavourable weather conditions over the past few years caused prolonged crop failure, resulting in CTC having to import tobacco leaf for its production processes. In 2017, CTC took proactive efforts to boost tobacco crops by anticipating weather patterns and providing continued guidance to farmers on the optimal period and geographies suitable for cultivation. We also increased investments towards agro-wells and fostered better agricultural practices. During the year, we encouraged our tobacco farmers to move towards mechanisation by introducing new technologies at different stages of the crop cycle and distributed more disease resistant varieties and hybrid seeds, to enhance crop yields.

As a result of these efforts, our farmers achieved a bumper crop this year, despite facing numerous climatic challenges. Crops almost doubled in comparison to last year and we were able to fulfil the entirety of our tobacco leaf requirement locally.

Impacts of climate change together with external pressure on tobacco farmers by Government authorities compelled us to seek new ways of working to drive productivity in our leaf operations. Accordingly, we strengthened our team, bringing in fresh talent at both management and extension officer level. Skill development was a key focus during the year, and we introduced a modular based technical training programme for all extension officers. Consisting of 18 modules and followed by an examination, all officers successfully completing the programme received certification by BAT.

It is concerning that tobacco farmers continued to face unwarranted and unlawful pressure by activists and Government officials to abandon the cultivation of tobacco. Some Government officials also resorted to litigation against farmers operating barns. As a Company that has strived throughout the years to support the sustainable livelihoods of the farmers partnering with us, we provided legal assistance to those affected and it is encouraging to note that in 26 such instances during the year, the courts found in favour of the tobacco farmers.

The guaranteed pricing and buy-back agreements provide a stable source of income to our farmers, enabling them to generate a relatively higher return than other agricultural crops and contributing to their socio-economic progress. The potential abandonment of tobacco farming could therefore give rise to significant economic and social problems, threatening the livelihoods of over 300,000 families island-wide.

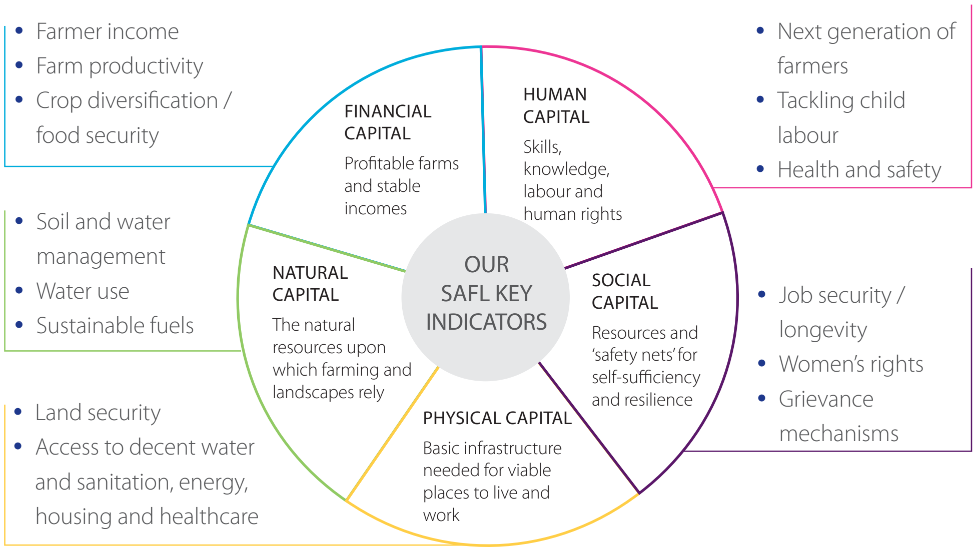
Supplier Standards

The Sustainable Tobacco Programme (STP) was formulated by the world's largest tobacco manufacturers, bringing together industry best practices in assessing and monitoring supplier performance. The programme applies to all first-tier suppliers who are required to complete a comprehensive annual self-assessment encompassing 178 criteria under the areas of governance, crop, environment, people and facilities. It also includes independent on-site reviews, risk assessments, analysis of suppliers' policies, processes and practices, visits to tobacco farms as well as prompt actions taken based on observations from the visits. The entire programme is monitored and coordinated by the STP steering committee for the country as per global guidelines.

In 2016, BAT moved beyond the STP Framework to launch the Sustainable Agriculture and Farmer Livelihoods (SAFL) programme, which seeks to holistically address some of the critical risks threatening the sustainability of tobacco farming. For instance, in Sri Lanka, the aversion of rural youth to engage in farming and seek out other career choices in urban areas has created acute labour shortages in agriculture threatening its long-term sustainability. The SAFL programme aims to address some of these challenges by ensuring that,

- All contract farmers have a viable livelihood;
- Farming is seen as a preferred profession, particularly for rural youth; and
- Within farming, tobacco is seen as a valuable crop to grow.

In addition to securing our raw material supply and enhancing farmer livelihoods, we believe SAFL will help us contribute towards achieving wider global objectives, such as the Sustainable Development Goals.



Crop	Seed testing and certification	Environment	Sustainable management of water, soil and forests
	Soil analysis and fertilizer management		Pollution control
	Tobacco crop management best practices		Waste management
	Rational use of agrochemicals and other ways for pest and disease control		Recycling
	Crop hygiene and contaminants control		Fuel and energy reduction and GHG reduction
	Farmer profitability		Biodiversity
People	Child labour prevention	Facilities	Hygiene in the working place
	Safe working environment		Health
	Fair treatment		Safety and protection
	Freedom of association		Prevention of accidents and emergencies
	Legislation compliance		Medical facilities
	Terms of employment		Facility security

Material Topic 7 : Leaf and Non-leaf Suppliers

Leaf Team with Tobacco Farmers

Financial Capital

Tobacco is grown alongside a range of crops allowing farmers to have an alternate source of stable income. Prices are negotiated with barn owners and the Department of Agriculture and guaranteed at the start of each growing season, ensuring transparent and fair pricing. The purchased quantities are also assured through a forward contract system, thereby enabling farmers to have a guaranteed income. In addition, farmers also receive loan facilities to help meet financial requirements during the crop cycle inclusive of flexible payment terms to minimise financial burden in periods of adverse weather.

Natural Capital

We provide guidance to farmers on sustainable agricultural practices with the objective of preserving soil health, forestry and bio-diversity. Focus areas in training include,

- Application of site specific fertilizers;
- Soil mapping, conducted every five years, to gauge quality of soil;
- Introduction of hybrid seeds;
- Eliminating the use of fuel wood in curing barns, which are now operated solely on paddy husk;
- Using of Integrated Pest Management (IPM) systems to reduce the dependence on chemical pesticides and encourage the use of organic fertilizers;
- Implementing soil conservation techniques such as Sloping Agricultural Land Technology (SALT); and
- Providing all required agricultural inputs for cultivation of the crop on credit basis. This not only supports our farmers but also ensures that only approved fertilizers that meet specified quality standards are used for tobacco cultivation eliminating any adverse residual impacts of Heavy Metal Contamination of the Soil.

Physical Capital

We strive to ensure that tobacco growing areas are viable places to live and work by providing access to technology and investing in community projects.

Human Capital

In 2017 we continued to work with farmers to reduce the risk of green tobacco sickness through raising awareness and providing personal protective equipment such as gloves and masks. Agricultural supply chains are particularly vulnerable to child labour, and we are committed towards ensuring that our contracted farmers do not employ exploitative child labour or engage in any form of human rights abuses. Compliance is monitored via the STP programme through site visits. The Group's revised Standards of Business Conduct (SOBC) also contains our new Human Rights Policy and details our commitment to eliminate child labour, ensure no exploitation of labour and respect for freedom of association. The policy is applicable to all BAT's global subsidiaries and is part of the Group's continuing commitment to the UN Declaration of Human Rights. BAT is also a co-founding member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and continues to play an active role together with the ILO, Save the Children and industry counterparts.

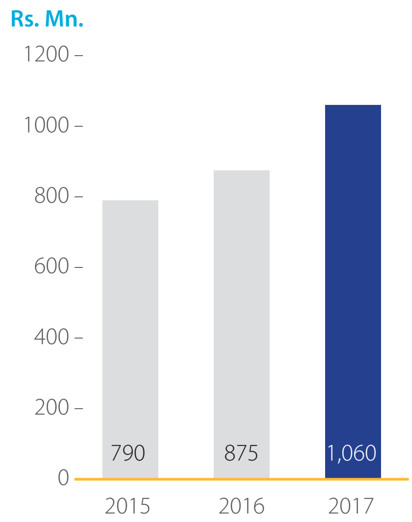
Social Capital

The SAFL programme also endeavours to address social challenges faced by farming communities in Sri Lanka such as access to education, female empowerment and job security. For instance, we provide annual scholarships for farmers' children to pursue higher education opportunities, based on their academic merit. We have also implemented a pension scheme for farmers, which is maintained with contributions from farmers and the Company, and managed by farmer organisations ensuring a steady income for tobacco farmers after retirement.

Results

During the year, CTC injected Rs. 1.1 billion to tobacco farmers through leaf purchases, an increase of 21% compared to the previous year. It is noteworthy that the entirety of our tobacco requirement for the year was fulfilled locally.

Leaf purchases



Way Forward

We will continue to work closely with the tobacco farming community to ensure that our supply of leaf is sustainable and of superior quality. In 2017, we also invested in a prototype of a new curing system - loose leaf barn, which is expected to eliminate unproductive elements and reduce the labour requirement by nearly 20%. We hope to expand this in the coming year, in line with the organisation-wide productivity drive. Effective management of the stock holding period is vital in ensuring a consistent flavour and we will focus on maintaining the optimum level of stocks based on our brand strategy.

Material Topic 7 : Leaf and Non-leaf Suppliers

Non-leaf Suppliers

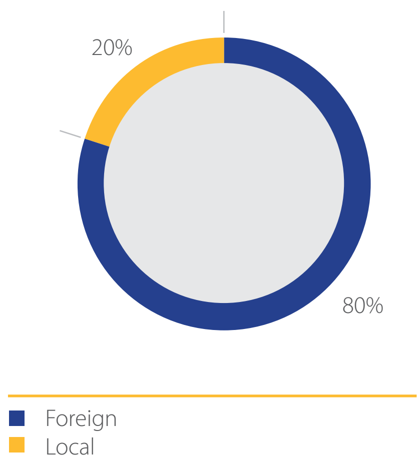
Strategy and Management Approach

The Company's non-leaf suppliers are local and foreign parties from which we source packaging and other raw materials. We have been successful in nurturing long-standing relationships with our non-leaf suppliers, underpinned by a systematic approach towards managing common risks and generating shared value.

Profile of our non-leaf suppliers – Direct Material Suppliers

Total direct material suppliers	22
Relationship between 25 years or more	4
Relationship of between 10-25 years	8
Relationship of less than 10 years	11

Non-leaf supplier profile



Sustainability Considerations in Supplier Screening

We employ global best practices prescribed by BAT in enlisting, selecting and evaluating suppliers. We assess the business enablers a supplier has in place, provide a measure of the risk the Company is exposed to, and identify joint improvement opportunities to overcome such risks. Through positioning suppliers against excellence criteria and robust practices, we are able to objectively rate our suppliers, identify 'pressure points', and appropriately manage identified risks. During the year, we further strengthened our non-leaf supplier screening mechanisms by incorporating contingency planning as well as social and environmental sustainability criteria as listed below;

Procurement Team

In instances where the prescribed criteria are not met by a supplier, the Company provides guidance on how the necessary systems and tools can be implemented, thereby encouraging the effective identification, management and risk evaluation of sustainability topics.

Social / Environmental factor	Criteria
Occupational health and safety (OHS)	• Extent to which risk assessments (such as fire protection and prevention) are performed and systems are in place to track regulatory requirements • Extent to which an OHS organisation and training structure is in place • Monitoring and recording of OHS performance • Application of the OHS policy and requirements
Environmental management principles	• Extent to which suppliers have identified, communication and applied strategies regarding environmental management principles • Systems in place to track regulatory requirements • Performance of environmental impact assessments • Extent to which environmental policy is applied • Efforts to produce more environmentally responsible products • Attention given to sustainability of raw materials

Material Topic 8

Corporate Behaviour

IMPORTANCE TO OUR BUSINESS

As an Organisation in a controversial sector, we have long been aware of the added responsibility placed on us to operate to the highest standards of corporate conduct and transparency.

RELEVANT STAKEHOLDERS

Regulators

Shareholders

RELEVANCE TO OUR STRATEGY

Sustainability

RISKS TO THE BUSINESS

- Non-compliance can lead to regulatory pressure and negative impacts on reputation.

HIGHLIGHTS IN 2017

- Carried out an open and responsive stakeholder engagement process.
- Contributed Rs. 117.3 billion in excise, taxes and levies to Government coffers.
- The Government fell short of Rs. 17.7 billion in excise and tax revenue against the Rs. 135 billion it stood to earn from the industry in 2017.

Strategy and Management Approach

Corporate behaviour is a crucial element of the Group's sustainability strategy, and BAT along with its subsidiaries have implemented industry-leading practices, which have underpinned our Organisational culture and values. In Sri Lanka, scrutiny and negative perceptions about CTC has compelled us to always maintain a high level of transparency and accountability. A comprehensive suite of policies, principles and standards (listed below) govern the way we do business and how we behave.

Governance Practices

In addition to the policies, principles and standards of the BAT Group, CTC's Corporate Governance Framework complies with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant laws and regulations.

Our core beliefs and values	Application of values to specific situations that may arise
Statement of Business Principles	**Standards of Business Conduct**
Minimum standards we expect of all suppliers	Governs the marketing of our products
Supplier Code of Conduct	**International Marketing Principles**
Provides clear guidance for our external engagement	
Principles of Engagement	

The Company has also adopted the Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. BAT's acquisition of Reynolds American Inc. during the year has resulted in increased governance complexity and the Group further strengthened its governance practices to ensure that they continue to meet the toughest of global standards. Improvements to CTC's governance practices during the year include,

- Adoption of a new Standards of Business Conduct with increased emphasis on anti-bribery, anti-corruption and public contributions;
- Anti-bribery training for all employees; and
- Revamping the whistle-blowing policy and introducing a dedicated hot line managed by an independent party to ensure anonymity.

(Please refer to page 80 to 101 for further information on the Company's corporate governance practices).

Tax Contributions

We are committed to being open and transparent with tax authorities and are steadfast in our commitment to contribute towards the country's development through taxes. Tobacco taxation in Sri Lanka is one of the highest in the world, and our tax footprint comprises of corporate tax, excise duties, VAT and employment taxes. CTC is the country's largest individual tax contributor, injecting Rs. 117.3 billion in 2017, which amounted to 7% of Government's total tax revenue.

Material Topic 8 : Corporate Behaviour

Stakeholder Engagement

We engage with a wide range of stakeholders, allowing us to better understand their concerns and respond to them appropriately. Feedback obtained from engagement forms the foundation for identifying material topics, which are vital inputs in our strategy formulation, planning, operations and sustainability reporting. The Company's stakeholder engagement during the year is summarised in the table given below.

Legal and External Affairs Team

	Ongoing engagement methods	Key topics
Shareholders	• Annual General Meeting and publication of Annual Report. • Regular performance updates. • Announcements to the Colombo Stock Exchange. • Corporate website.	• Sustainable growth in financial, social and environmental performance. • Financial impact of increasing regulation and excise duty. • Returns commensurate with the risk undertaken. • Corporate governance and risk management frameworks. • Transparency and credibility of disclosures. • Corporate reputation.

	Ongoing engagement methods	Key topics
Employees	• Employee satisfaction surveys. • Training and development programmes. • Tribal Talk forum. • Interact. • Company Plan Cascade. • Engagement through trade unions. • Performance appraisals. • Manufacturing team meetings. • Functional / departmental meetings. • Sports and Recreational Club activities. • Structured electronic and print internal communications through e-mailers, TV Screens etc.	• Performance and reward management. • Opportunities for skill and career development (eg: Global Talent Platform, BAT Careers Website, International Assignments and Exchange Programmes). • Employee safety (eg: PULSAR). • Ethics and business conduct. • Improving Diversity (eg: Participation in management teams). • Freedom of association and collective bargaining. • Work-life balance. • Employee health and welfare. • Open office culture. • Employee recognition (eg: Rapid recognition, higher visibility).
Consumers	• Consumer feedback is obtained through a General Consumer Survey conducted by a third-party agency. • Consumer hotline. • One-to-one feedback through retailers.	• Value for money. • Customer service and satisfaction. • Product availability. • Product composition. • Innovation and company initiatives for harm reduction.
Regulators	• Direct engagement with relevant Government Departments and Ministries.	• Compliance to all applicable laws and regulations. • Timely payment of relevant excise duties, taxes and levies. • Community development and rural empowerment.

Material Topic 8 : Corporate Behaviour

	Ongoing engagement methods	Key topics
Business partners	**Farmers and Barn Owners** • Sustainable Agriculture Farmer Livelihood (SAFL) Programme. • Sustainable Tobacco Programme (STP) Reviews. • Disseminating knowledge and best practices in sustainable cultivation methods. • Farmer appreciation programme. • Field support for tobacco farmers through Leaf Field Officers. • Farmer meetings. • Engagement through SADP Ultra.	**Farmers and Barn Owners** • Fair pricing and buy-back guarantees for tobacco leaves. • Timely payments. • Community development. • Financial assistance (eg. Loans, Pension schemes etc.). • Training on agricultural and environmental best practices. • Total livelihood improvement (eg: scholarships, other food crops, inter-cropping). • International exposure and exchanges.
	Non-Leaf Suppliers – Direct Material Suppliers • Supplier meetings and briefings. • Supplier visits. • Supplier assessments.	**Non-Leaf Suppliers – Direct Material Suppliers** • Best Health and Safety practices. • Supplier standards. • Sustainability. • Best practices to improve efficiency and productivity.
	Distributors and retailers • Customer voice survey targeted at exclusive distributors and retailers. • Provision of value added services including training and guidance to uplift hygiene and customer service standards among hospitality and restaurant sector retailers.	**Distributors and Retailers** • Availability of products. • Affordability. • Credit and payment terms. • Service quality. • Value added services.
Local communities	• Support through field officers. • Getting involved in community projects in localities we operate in.	• Opportunities for harmonious and mutually beneficial relationships.

Material Topic 9

Tackling Illicit Trade and the Beedi Market

IMPORTANCE TO OUR BUSINESS

The illicit market grew at an alarming pace in 2017, resulting in an erosion of our market share. Tobacco regulation has only targeted the legal industry leading to dramatic increases in the price of legally manufactured cigarettes.

RELEVANT STAKEHOLDERS

Shareholders

Farmers

Distributors / Retailers

RELEVANCE TO OUR STRATEGY

Growth **Sustainability**

RISKS TO THE BUSINESS

- Declining market share due to increased competition from illicit cigarettes and beedi undermines our investment in trade and distribution.

HIGHLIGHTS IN 2017

- The illicit market grew at an estimated 650% during the year leading to Rs. 17 billion loss in government revenue and defeating the country's public health objectives.

Strategy and Management Approach

Sri Lanka's illicit market burgeoned in 2017 following the 43% hike in the prices of legally manufactured cigarettes in 2016. The country's tobacco regulations have mostly targeted the legal industry and attempts to reduce tobacco consumption through price hikes has failed due to the absence of a cohesive national strategy to restrict black market activities. The illicit market expanded at an alarming rate in 2017 with Law Enforcement Authorities confiscating 51 million sticks, compared to 4 million sticks in 2016. On average, law enforcement authorities detect only one in ten illicit cigarettes and based on available data it can be estimated that around 510 million sticks entered into the country during the year. In addition to eroding CTC's market share the growth of the illicit market has led to numerous socio-economic issues including the following;

- **Loss of Government Revenue**

  The Government's tax component represents the bulk of the price of a legally manufactured cigarette in Sri Lanka. This means that the inflow of illicit cigarettes has deprived the Government of Rs. 17 billion in taxes during the year, which could have been used to ease the country's fiscal pressures.

- **Increased Consumption Levels**

  As experienced by regional countries such as Malaysia and Pakistan, it is an oversimplification to assume that increasing the price of legal cigarettes would lead to a drop in consumption. Despite the stringent regulation and heavy taxation on legal cigarettes, the country's tobacco consumption increased in 2017 driven by the record high level of easily accessible smuggled cigarettes in the market. Unlike legal cigarettes, which are required to comply with the NATA Act - print graphic health warnings and not be sold to persons under 21 years, traders of illegal cigarettes do not comply with any laws, making such products easily accessible to all including the youth.

  Smoking amongst youth will also increase as a result, as young people eager to experiment with tobacco products can easily consume them due to easy access and affordability.

- **Increase in Criminal Activity**

  Illicit cigarettes are usually distributed through criminal networks, which in most cases are free of government intervention due to the lack of an appropriate enforcement system and political will to control illicit trade. This results in a diversion of profits to organised crime, which channels funds towards illegal activities thereby placing additional pressure on the criminal justice system.

Material Topic 9 : Tackling Illicit Trade and the Beedi Market

Security and Anti Illicit Trade Team

The Expansion of the Beedi Market

The dramatic price increase of legal cigarettes has also resulted in raising the incidence of beedi, a thin stick filled with tobacco flake and wrapped in tendu, a leaf imported from India. The manufacture of beedi is a flourishing cottage industry and in 2017, production doubled in many districts as beedi producers saw an opportunity to capture the tobacco market. Beedi is considerably underregulated as it enjoys preferential treatment from the Government with no excise tax. The only taxes levied on beedi are import tax on tendu leaf and cess. The tax burden has therefore fallen unfairly on legal cigarettes, which contribute 97% of tobacco taxes despite holding 43% of the market share. While the price of a cigarette went up by Rs. 25 over the past five years, price of a beedi stick has only increased by a mere Rs. 2.50 causing notable shifts in consumption patterns. By 2017, beedi accounted for 51% of the market, compared to just 20% in 2007.

Results

As an issue that harms our business, deprives the Government of taxes and strengthens organised crime we continue to work closely with law enforcement agencies to curb illicit trading and prevent substandard products from entering the local market. In 2017, law enforcement authorities carried out over 2,500 raids and CTC continued to support the Government in its efforts by conducting training programmes for over 8,500 law enforcement officers.

Way Forward

We will continue to engage openly with the relevant regulators to highlight pertinent issues in the industry that could defeat the Government's public health objectives while adversely affecting the sustainability of our business.

Material Topic 10

Environmental Impacts

IMPORTANCE TO OUR BUSINESS

In generating value across our process, we negatively impact the environment through the use of non-renewable resources, generation of waste and discharge of emissions.

RELEVANT STAKEHOLDERS

Community

Regulator

RELEVANCE TO OUR STRATEGY

Sustainability

RISKS TO THE BUSINESS

- Impacts of climate change could threaten the sustainability of tobacco leaf supply.

HIGHLIGHTS IN 2017

- Energy consumption reduced by 4% to 39,765 giga joules.
- Increased the use of hybrid vehicles in the trade marketing fleet to 72%.
- Water consumption was reduced by 13% to 34,994 cubic meters while the specific consumption also fell to 6.43 cubic meters per million cigarettes.
- The Company generated 468.6 tonnes of solid waste, which was a 17% reduction over 2016.

Strategy and Management Approach

Our environmental management framework is governed by the BAT Group's comprehensive Environmental Policy and Management System which is based on international best practices in environmental management, including ISO 14001. The policy (refer page 149) is applicable to all our operations including the supply chain and its implementation falls under the purview of the EHS Steering Committee. Achievement of environmental objectives is also driven through the performance appraisals of relevant employees, which include specific criteria on environmental performance.

The Group has developed a set of new environmental targets to be achieved by 2025 (on an intensity measure), and we are committed towards supporting these objectives.

- Reduce our CO2e emissions by 55% by 2025 and by 80% by 2050 (against year 2000 baseline).
- Reduce our energy use by 25% by 2025*.
- Increase the amount of renewable energy we source to 25% by 2025*.
- Reduce the total amount of water withdrawn by 35% by 2025*.
- Increase the total amount of water we recycle to 15% by 2025*.
- Reduce our waste to landfill by 80% by 2025*.
- Reduce the total volume of waste generated by 10% by 2025*.
- Recycle at least 95% of our total waste generated each year.

*From a 2007 baseline

Raw Materials

The primary raw material used in manufacturing cigarettes is tobacco leaves, a renewable resource, which is sourced from local farmers. Effects of climate change, particularly the increased frequency of extreme weather conditions have affected crops in recent times. We continue to provide guidance to tobacco farmers on sustainable agricultural practices, focusing on aspects such as soil conservation, water management and the use of organic fertilizer among others. In 2017, we consumed 2,716 tonnes of tobacco leaf, a decrease of 13% in comparison to the previous year mainly due to the reduction in production volumes.

Energy

The Company's key sources of energy are electricity, diesel, furnace oil, and petrol.

During the year in review, our energy consumption fell by 4% to 39,765 giga joules when compared to the previous year. Specific energy consumption increased slightly to 7.3 giga joules per million cigarettes in 2017, a result of the volume decrease experienced during the year.

Numerous initiatives have been implemented across CTC to reduce dependence on fossil fuels, including the increased use of solar power, enhancing energy efficiency in manufacturing operations and gradually replacing the market fleet with hybrid vehicles. We were also the first market in BAT South Asia to install a solar-powered car charging system in 2016, offering free charging facilities to all employees. The charger currently generates around 1000 KwH per month and we hope to gradually increase investments in renewable energy through scalable planning with the ultimate objective of reducing dependence on fossil fuels and the national grid.

Material Topic 10 : Environmental Impacts

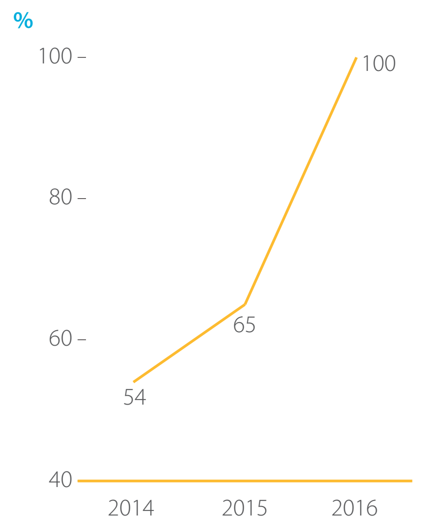
Engineering Team

We increased the use of hybrid vehicles in our trade marketing fleet from 40% in 2016 to 72% in 2017 further helping us to reduce our energy footprint.

We understand that transformations in employee attitudes is vital to driving reductions in energy use and emissions and established Conservation Cells' to champion energy reduction across functions. The Cells are operated under the purview of the Energy Manager, who is trained and certified by the Sustainable Energy Authority of Sri Lanka. Meanwhile, the Daily Engineering meeting is a forum through which the core engineering team assesses impacts and performances related to energy consumption and efficiency.

Barn automation: As part of our commitment towards renewable energy, we utilize paddy husk in the tobacco curing process, thus completely eliminating the use of firewood. The initiative is estimated to reduce energy consumption by 25% and also contribute towards reducing our carbon footprint. We are one of the first tobacco companies in the world

Barn automation coverage



to adopt this practice, which has now been emulated across other markets in the Group. We achieved 100% conversion of all barns by end-December 2016.

Water

The Company is dependent mainly on municipal lines to meet 85% of its water requirement while the balance 15% is withdrawn from a ground water source (tube well). The Company has continued to drive efforts towards reducing its water footprint, through rainwater harvesting, employee engagement and improving water efficiency in the manufacturing process. Water is also an important input in tobacco growing and achieving reductions in consumption across the supply chain is an important priority for the Group.

During the year in review, the Company's water consumption was reduced by 13% to 34,994 cubic meters while the specific consumption also fell to 6.43 cubic meters per million cigarettes. Reduction in production during the year, as well as results of investments made during the previous year have led to this reduction.

Waste and Effluents

Structured processes are in place to collect, segregate and dispose waste in ways that cause minimal environmental damage as listed below;

	Type of waste	Method of disposal
Solid waste	Tobacco waste (tobacco dust and confiscated cigarettes)	Sent to Insee Cement for alternative fuel generation
	Waste from green leaf threshing	Composted and sent to farmers as fertilizers
	Waste wrapping and packaging material	Sent for recycling
	Food waste from canteen	Sent for recycling
	Used CFL and Fluorescent light bulbs	Sent to a recycling facility operated by Orange
Effluents	Water discharged from operations	Treated via the effluent treatment plant and reused for non-critical activities such as gardening and road-way cleaning

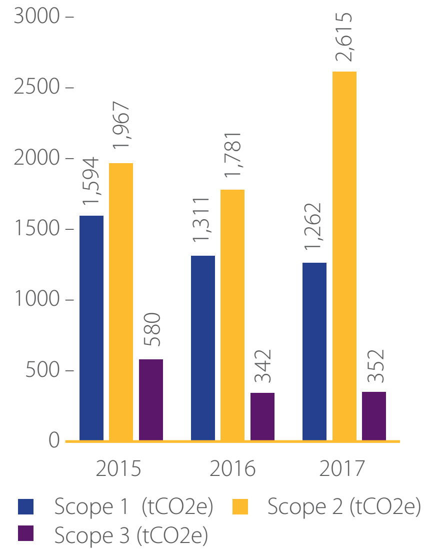
The Company generated 468.6 tonnes of solid waste during the year in review, which was a 17% reduction over 2016. 93% of the waste generated was recycled.

Emissions

The BAT Group's long-term target is to cut global emissions by 80% by 2050 and numerous initiatives launched across its markets have enabled the Group to record a 48% reduction in its carbon footprint thus far. The Company calculates its carbon footprint based on the Greenhouse Gas Protocol published by the World Resources Institute.

Greenhouse gas emissions

Tonnes of CO2 Equivalent



Greenhouse Gas Emissions

Scope	Definitions	Tonnes of CO_2 Equivalent
Scope 1	Energy consumed at our factories and offices (coal, natural gas, wood, diesel and LPG) and fuel consumed by our fleet vehicles	1,262
Scope 2	Electricity purchased and consumed at out factories and offices, purchased steam and hot water	2,651
Scope 3	Most relevant and material areas of: freight (transport related activities in vehicles not owned or controlled by the business), waste disposal and business travel	352

NOW

2020

0.2%	1.0%	2.0%	3.5%	5.0%
by solar	by solar	by solar	by solar	by solar

Vehicle Charging Bay

Solar Powered PMD Ventilation System

Expansion of Vehicle Charging Bay

Expansion to SMD Lighting

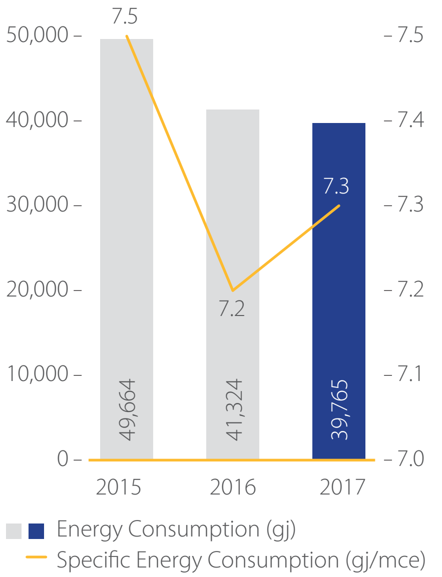
Battery Operated fork lifts

Vehicles - Plug-in Hybrids

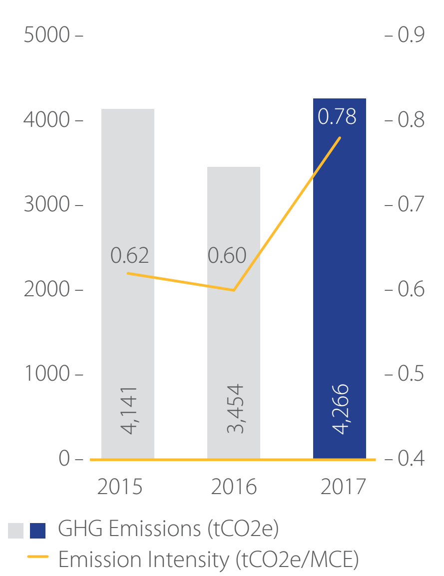
Our plan on reducing dependence on fossil fuels

Material Topic 10 : Environmental Impacts

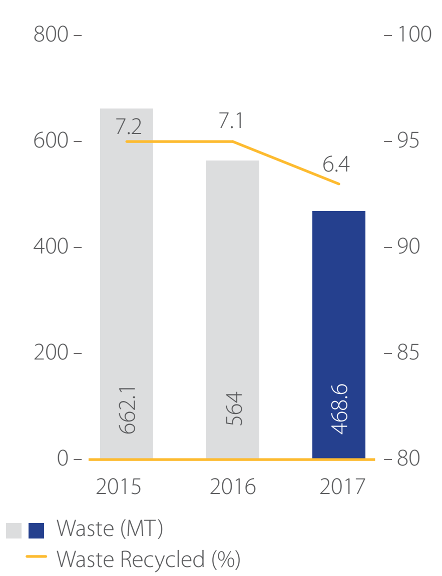
Energy consumption



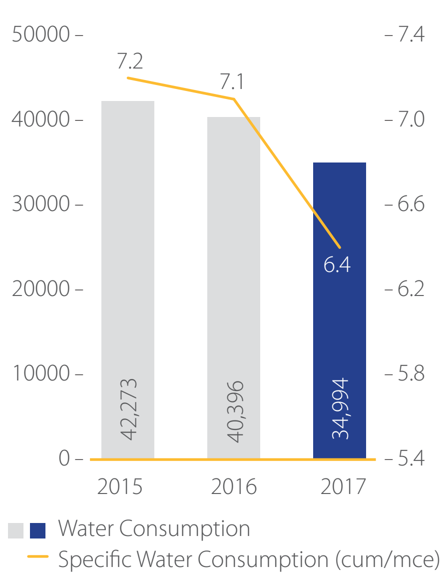
GHG emissions



Waste generated



Water consumption



Material Topic 11

Community Engagement

IMPORTANCE TO OUR BUSINESS

As an Organisation with an extensive rural reach, we have nurtured deep-rooted relationships in the communities we operate in, driving meaningful and sustainable socio-economic progress in these communities.

RELEVANT STAKEHOLDERS

Community

Regulator

RELEVANCE TO OUR STRATEGY

Sustainability

RISKS TO THE BUSINESS

- Inability to maintain good community relationships can impact the Company's social license to operate.

HIGHLIGHTS IN 2017

- Improved the lives of 76,299 beneficiaries in 19,664 families across 16 districts in the island.
- Invested Rs. 44.7 million in SADP.
- Conducted a 5-day flood relief effort at an investment of Rs. 13 million.

Strategy and Management Approach

CTC's flagship CSI initiative, Sustainable Agricultural Development Programme (SADP) has over the past 11 years contributed towards uplifting communities and developing a platform for sustainable agriculture in rural Sri Lanka. The programme has directly benefitted over 76,299 economically underprivileged individuals in 19,664 families across 16 districts.

CSI Framework and Governance

CTC's approach towards CSI is directed by the BAT Group's CSI Framework, which clearly articulates how companies are expected to develop, deliver and monitor community investment programmes. All CSI activities are managed at a local level to effectively cater to community specific challenges and drive needs-based development.

At CTC, a CSI Steering Committee holds overall responsibility for reviewing and making appropriate recommendations to the Board regarding the Company's management of Corporate Social Investments and the conduct of business in accordance with the Statement of Business Principles. The Committee is headed by the Board Chairman, and comprises five members of the senior management team.

Sustainable Agriculture and Environment	Empowerment	Civic life
Focuses on the social, economic and environmental sustainability of agriculture as well as wider environmental issues	Consists of providing training, education and opportunities to contribute towards the development of communities	Activities that aim to enrich public and community life such as arts and indigenous cultures

BAT's CSI Framework

Susantha Ratnayake
Chairman

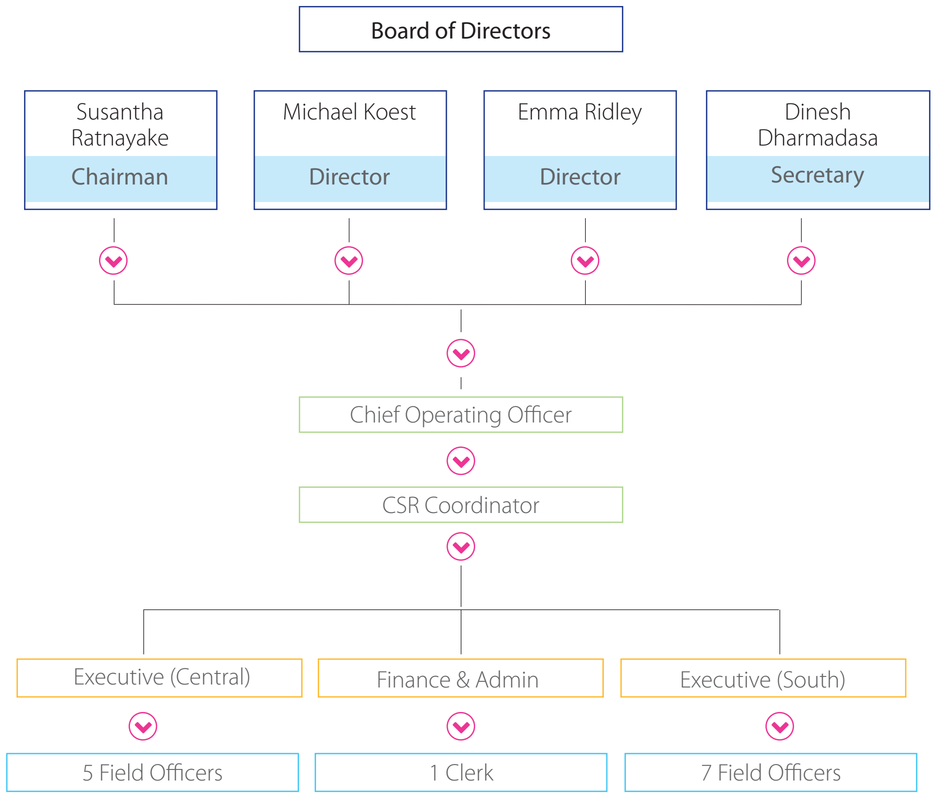
Michael Koest	Emma Ridley	Dinesh Weerakkody	Dinesh Dharmadasa
Director	Director	Director	Secretary

CTC's CSI Steering Committee

Material Topic 11 : Community Engagement

Activities related to SADP are carried out through Outreach Projects (Guarantee) Limited, a dedicated organisation, which was set up for the execution and management of SADP.

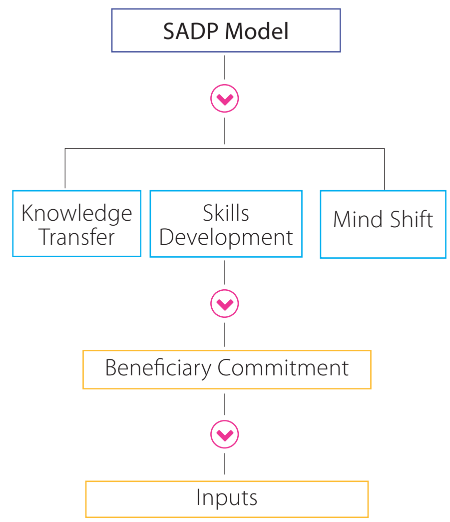
Outreach functions under the purview of the CSI Steering Committee and is responsible for the execution and management of all SADP activities. The structure of Outreach is given below.



Outreach Organisational Structure

Activities of SADP

SADP's primary focus is to contribute towards uplifting communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment.



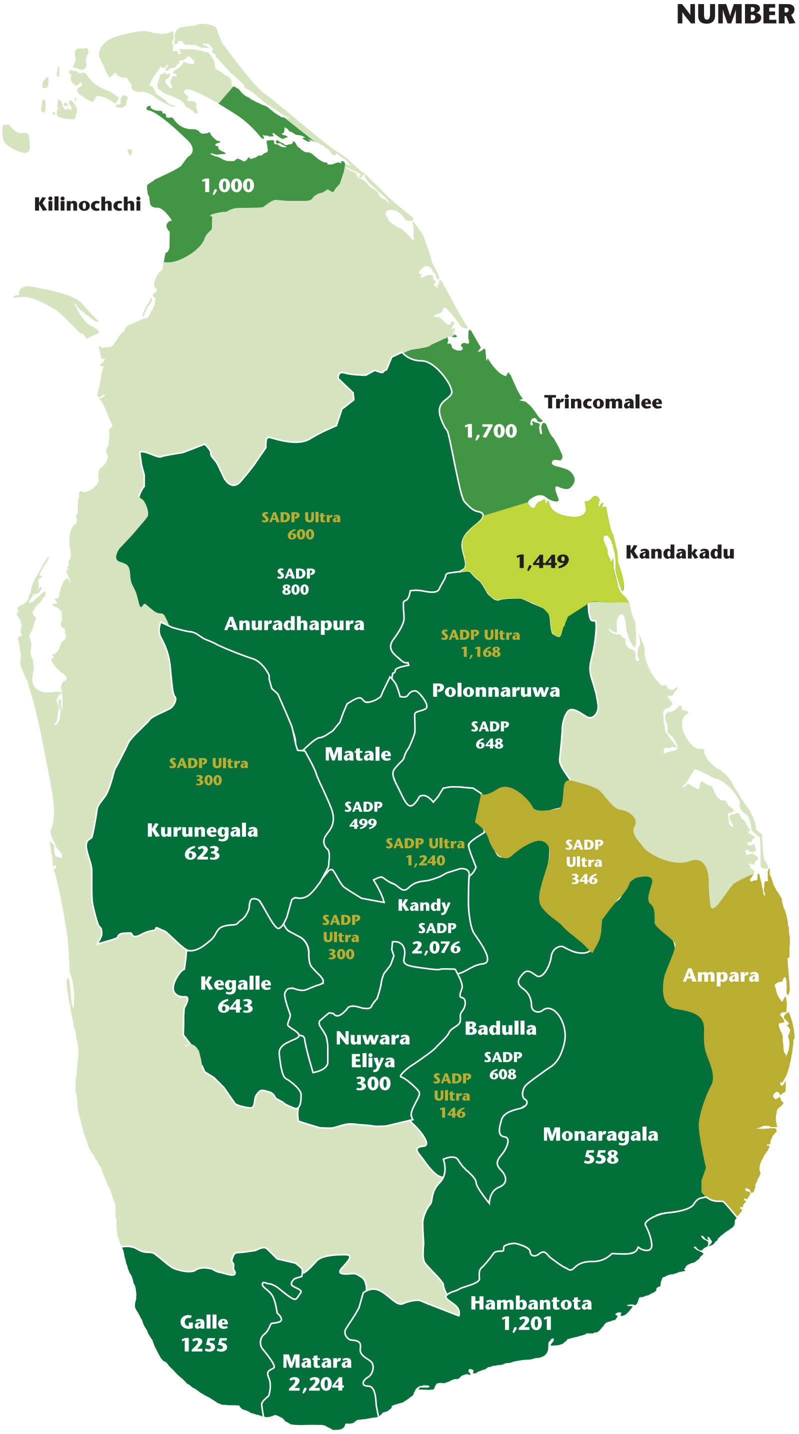
Through SADP, individuals living below the poverty line in selected villages are provided with agricultural and other inputs to achieve self-sufficiency through home gardening and animal husbandry. The project is implemented in four stages over a period of 2.5 years as illustrated below.

Stage 1 (0-6 months)	Registration	Issuing plants and seeds	Preparing compost pits and gliricidia fencing	Field support
Stage 2 (7-15 months)	Farming clusters	Farming Societies	Issuing plants, seeds and poultry	Field Support
Stage 3 (16 – 24 months)	Issuing animal husbandry	Issuing plants and seeds	Field Support	
Stage 4 25-30 months	Preparation for graduation	Graduate after 30 months	Field support	

The four stages of SADP implementation

NUMBER OF SADP FAMILIES BY PROJECT

SADP	-	11,415
SADP Plus	-	2,700
SADP Lite	-	1,449
SADP Ultra	-	4,100



SADP FAMILIES BY DISTRICT

SADP

Anuradhapura	800
Polonnaruwa	648
Kurunegala	623
Matale	499
Badulla	608
Kandy	2,076
Kegalla	643
Nuwara Eliya	300
Monaragala	558
Hambantota	1,201
Matara	2,204
Galle	1,255

SADP Plus

Trincomalee	1700
Kilinochi	1000

SADP Lite

Kandakadu	1449

SADP Ultra

Matale	1240
Polonnaruwa	1168
Badulla	146
Ampara	346
Anuradhapura	600
Kurunegala	300
Kandy	300

Material Topic 11 : Community Engagement

SADP

SADP was introduced in 2005 as a poverty alleviation programme. Under SADP people living below the poverty line in selected rural villages from 12 districts of Sri Lanka are provided with the required input to become self-sufficient through home gardening and animal husbandry. Beneficiaries of this programme receive support for two and a half years.

SADP

11,415 families

Total investment: Rs. 308.5 million

SADP Plus

Implemented in the Eastern and Northern Province in response to the Government's invitation for post-conflict development, SADP Plus was launched with the objective of uplifting livelihoods of rural families ravaged by conflict. Relatively large land extents enable these families to cultivate cash crops in addition to home gardening.

SADP Plus

2,700 families

Total investment: Rs. 79 million

SADP Lite

SADP Lite was launched in 2010 as a result of a request made by the Ministry of Rehabilitation and Prison Reforms to rehabilitate ex-LTTE combatants in the Kandankudu area. The project involved agriculture-related vocational training for a period of 12 months.

SADP Lite

1,449 families

Total investment: Rs 2.9 million

SADP Mega

CTC collaborated with the Gangaramaya temple from 2011 to 2016 to create a 12-acre model farm in Sooriyawewa to serve as a knowledge hub in training farmers on ecologically friendly agricultural practices. The proceeds of the farm are donated to the temple for community engagement initiatives.

SADP Mega

Total investment: Rs. 6.8 million

SADP Ultra

SADP Ultra was launched in 2013, to promote the cultivation of cash crops such as maize and other home gardening crops on tobacco fields. The multiple benefits of this programme, which include increasing bio diversity of the land, enhancing soil quality and providing farmers with an additional source of income. Due to the merits of the programme CTC continues to support this initiative to date.

SADP Ultra

Number of beneficiaries: 4,100

Total investment: Rs. 12.3 million

SADP Agro-wells

Launched in partnership with the Welioya District Secretary, this project involved the construction of 100 agro wells in drought stricken areas in the Mullaithivu District of the Northern Province.

SADP AGRO WELLS

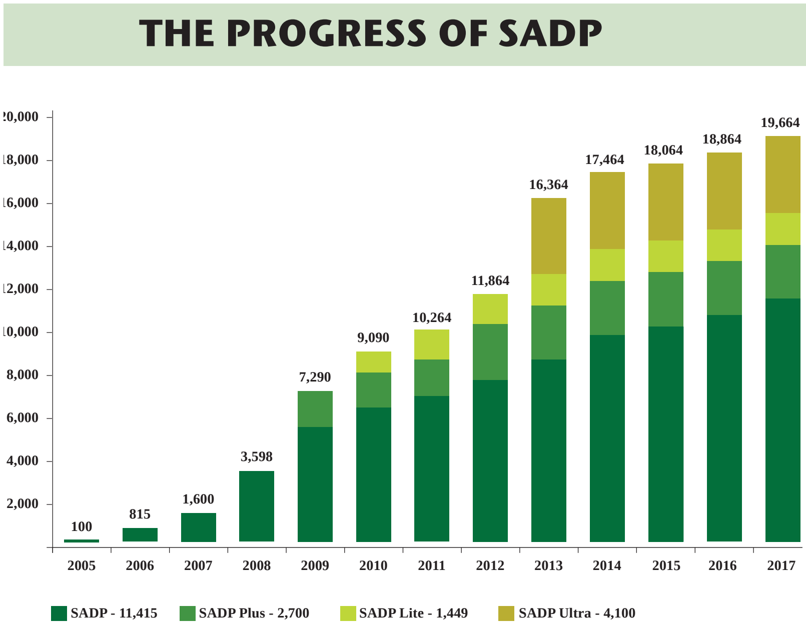
Number of beneficiaries: 400

Total investment: Rs. 24 million

Results

The programme has been carefully formulated to achieve 8 distinct objectives and performance is monitored against these objectives through measurable, pre-defined KPIs. Progress made during the year towards achieving these objectives are detailed below. The Company also engages Ernst & Young to conduct an independent impact assessment study of the programme.

Objective	Results	Contribution to SDG
Objective 1: Expansion of the programme	In 2017, we added 800 more families thereby bringing the total beneficiary base to 76,299 families.	10 Reduced Inequalities

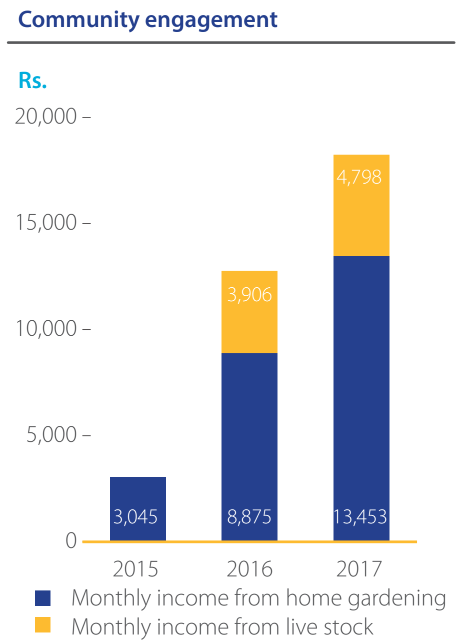


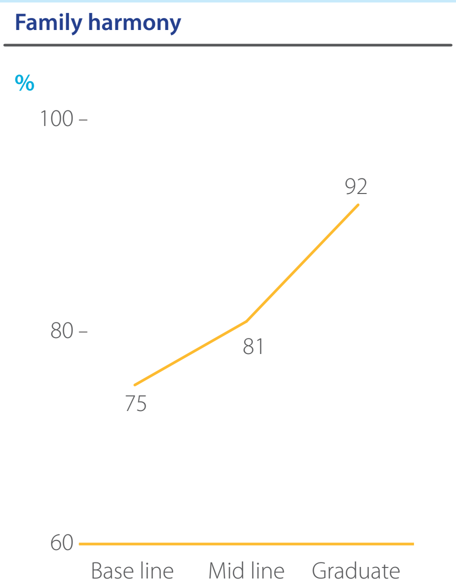
Objective	Results	Contribution to SDG
Objective 2: Providing a balanced meal	An impact study conducted by Ernst & Young in July 2015 revealed that calorie intake by SADP families had improved in line with the progression of the project and was in line with the levels recommended by the World Health Organisation.	2 Zero Hunger

Per day calorie intake	Recommended daily allowance	Base line	Mid line	Graduate
Energy (Cal)	3000 cal	0.89	0.97	1.23
Protein (g)	55g	0.87	1.20	1.13
Fat (g)	65g	1.02	1.25	1.37
Carbohydrate (g)	300g	1.41	1.69	1.66
Calcium (mg)	600 mg	0.75	0.92	1.12
Iron (mg)	25mg	0.81	0.95	1.09
Retinal (ug)	750(ug)	0.44	0.59	0.48
b - Carotene (ug)	3000(ug)	0.65	1.13	1.51
Vitamin C (mg)	50mg	2.17	4.06	4.736

$$\text{Formula} = \frac{\text{Per capital nutrient intake}}{\text{RDA}}$$ "1" is ideal

Material Topic 11 : Community Engagement

Objective	Results	Contribution to SDG
Objective 3: Increasing the level of agricultural knowledge	Increased agricultural knowledge gained through the programme has enabled the beneficiaries to obtain an additional source of income while obtaining the required nutritional requirements.	
Objective 4: Providing beneficiaries with an additional source of income	Based on the independent study conducted by Ernst & Young, in July 2015, beneficiary families recorded a consistent growth in income generated as a direct result of SADP. In the first year, a family earned approximately Rs.3000 per month and this increased to Rs.12,700 over the next two years and Rs.18,200 after the first 30 months. 	
Objective 5: Empowering Female	An independent study carried out by Ernest & Young in July 2015 indicated that in 94% of the participant families, women led the implementation of the project and played a vital role in sustaining it throughout its life cycle. The financial inclusion of women contributes towards uplifting the socio-economic standards of families and SADP has directly contributed to empowering and supporting women in these economically underprivileged communities.	

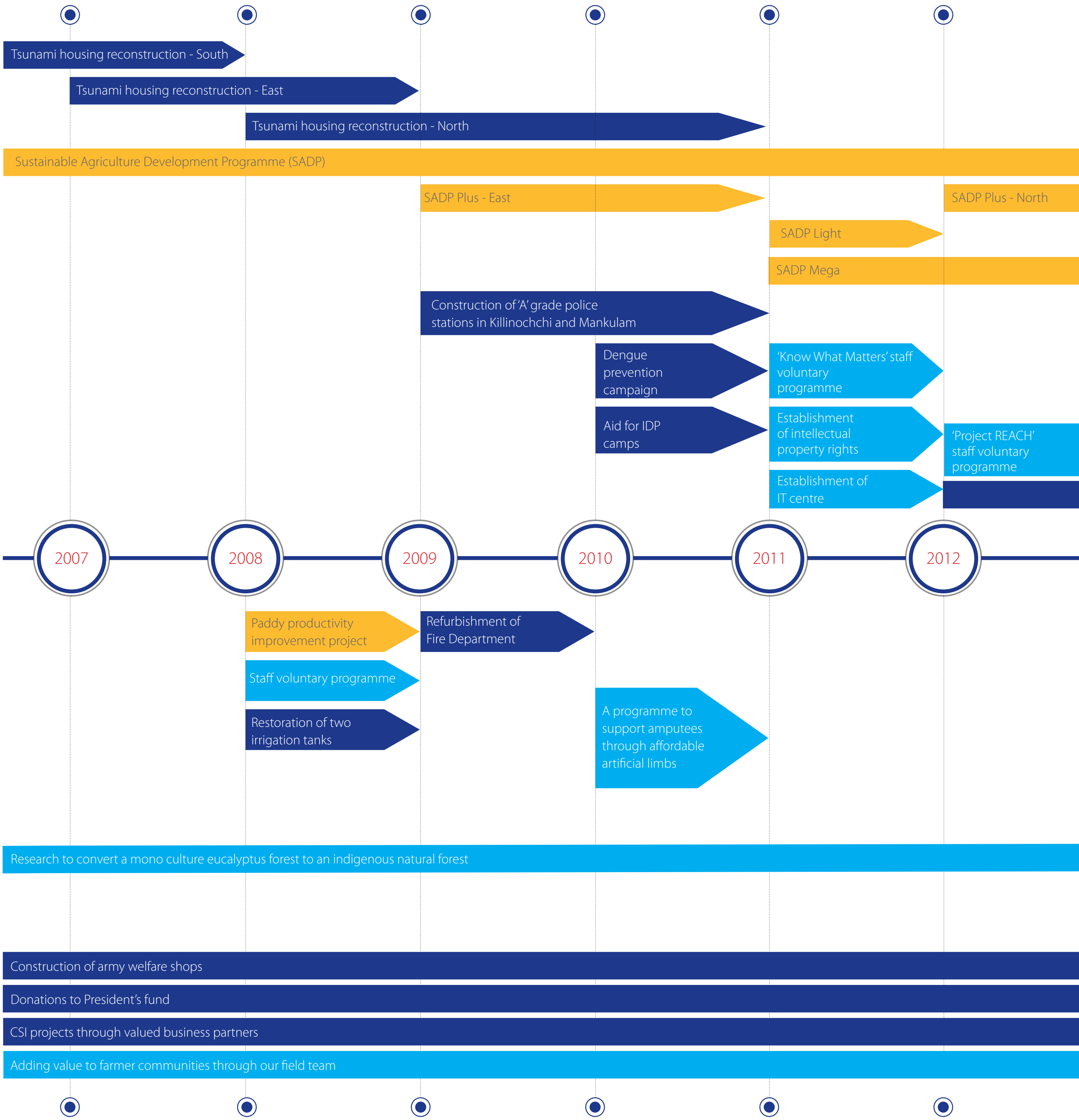
<table>
<tr><th>Objective</th><th>Results</th><th>Contribution to SDG</th></tr>
<tr><td>Objective 6:
Combatting social disharmony</td><td>Amongst these communities, the primary reasons for family disharmony are the prevalence of hunger and poverty. Evidence based findings by Ernst & Young in July 2015 revealed that with the progression of SADP, family harmony of beneficiary families improved significantly due to benefits as demonstrated here.

</td><td></td></tr>
<tr><td>Objective 7:
Enhancing land utilisation and productivity</td><td>Use of land to cultivate vegetables, fruits and animal husbandry by beneficiary families has facilitated the maximum utilisation of their land. The independent review by Ernest & Young in July 2015 revealed that over 92% of the beneficiaries were utilising their lands at optimal levels.</td><td>
</td></tr>
<tr><td>Objective 8:
Promoting organic farming</td><td>All families participating in SADP are required to source fertiliser entirely through composting organic waste and manage pests by using Integrated Pest Management. Almost 99% of beneficiary families were compliant with the organic practices recommended by the programme.</td><td>
</td></tr>
</table>

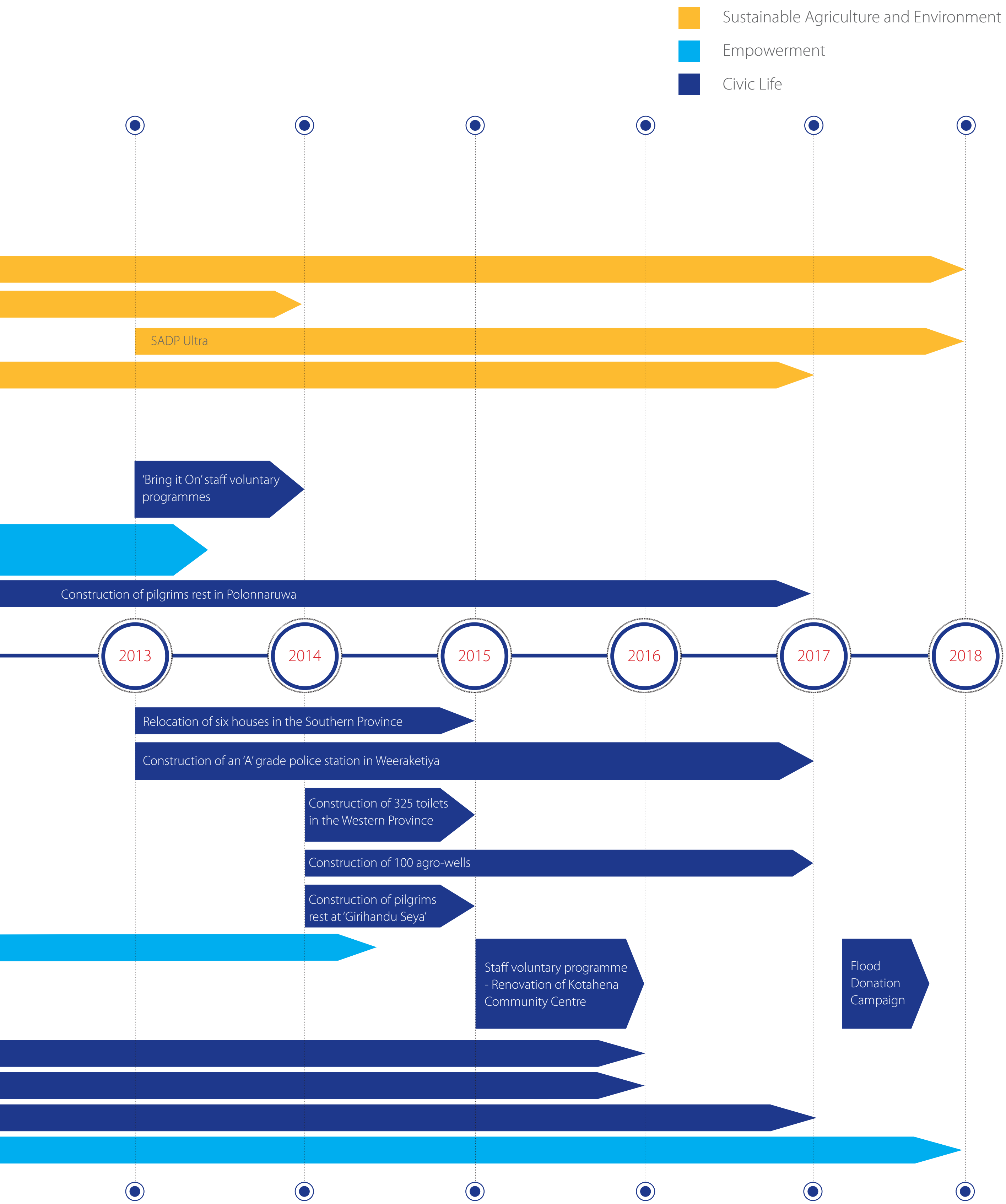
Flood Relief

In addition to ongoing activities under SADP, we also engaged in numerous flood relief activities in 2017. Following the intense floods in May, employees conducted a five-day campaign in partnership with the Police, STF and SADP farmer organisations to distribute essentials such as bed sheets, towels, clothes, medicine and sanitary items to several areas in Deniyaya, Ratnapura, Galle, Matara and Matugama. The total investment in these efforts were around Rs. 13 million, funded jointly by the employees and the Company.

Material Topic 11 : Community Engagement

Over a decade of Corporate Social Investment




Sustainable Agriculture and Environment
Empowerment
Civic Life
SADP Ultra
'Bring it On' staff voluntary programmes
Construction of pilgrims rest in Polonnaruwa
2013
2014
2015
2016
2017
2018
Relocation of six houses in the Southern Province
Construction of an 'A' grade police station in Weeraketiya
Construction of 325 toilets in the Western Province
Construction of 100 agro-wells
Construction of pilgrims rest at 'Girihandu Seya'
Staff voluntary programme - Renovation of Kotahena Community Centre
Flood Donation Campaign

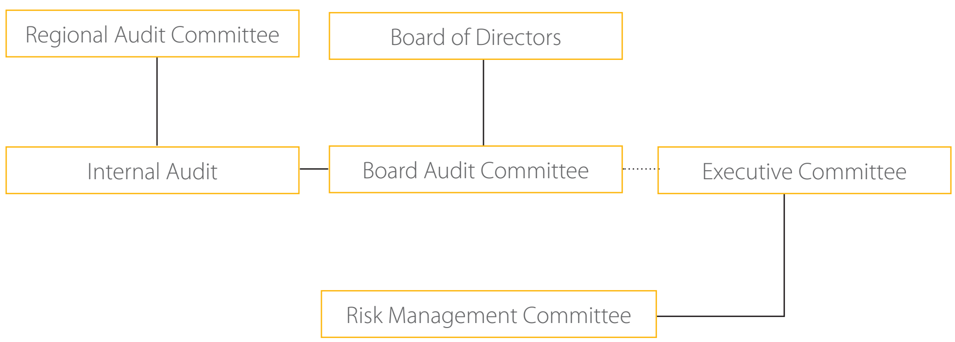
Risk Management

As challenges in our operating landscape continue to intensify, the proactive identification and management of risks become vital in ensuring sustainable stakeholder value. The Company's risk management framework is characterised by defined mandates, comprehensive policy frameworks and governance structures which ensure judicious empowerment. Effective risk identification, monitoring and mitigation processes are embedded in the Company's daily operations through a comprehensive framework of monitoring mechanisms, internal controls and relevant stakeholder engagement mechanisms. As a subsidiary of a global group, CTC also benefits from the international harmonization of global best practices in risk management and has been successful in nurturing a risk culture which aptly balances risk and growth considerations.

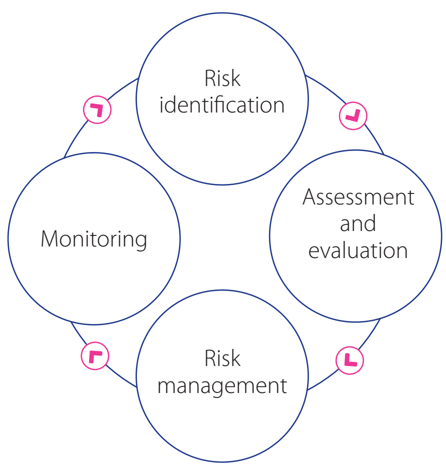
Risk Governance

The Board of Directors is responsible for determining the nature and extent of the significant risks the Company is willing to take to achieve its strategic objectives and ensuring that these risks are managed effectively. The Board is supported by the Board Audit Committee in discharging its risk management related responsibilities and the Board Audit Committee reviews the effectiveness of the Company's risk management and internal control systems bi-annually. A dedicated Risk Management Committee (RMC) headed by the Company's Finance Director and consisting of Senior Managers representing key functions report to the Executive Committee on the risk performance of each function on a regular basis. The Company's risk profile is also monitored through the internal reporting mechanisms of the Group.

Governance Structure



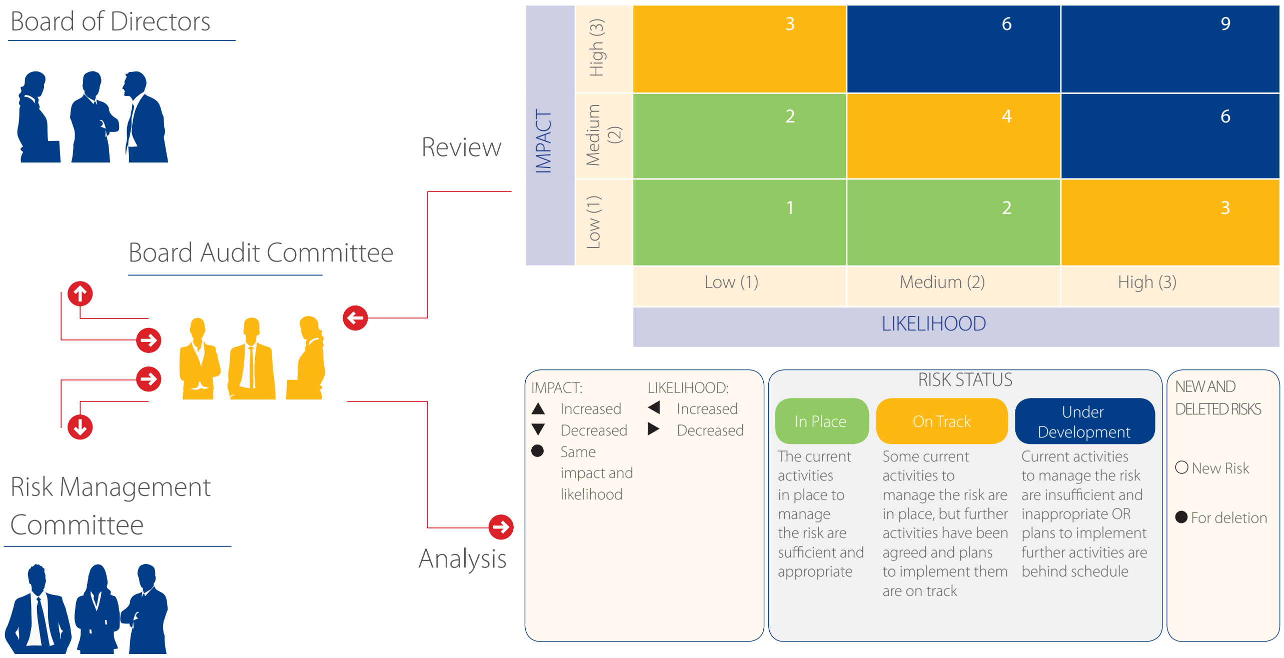
Management Approach



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

Assessment and Evaluation- Risk registers, which are standardised across the Group, are used to assess and evaluate risks. All identified risks are assessed at three levels (high / medium / low) with reference to the likelihood of occurrence and the potential impact. Tolerance levels and trigger points are also defined for each identified risk. The risk registers are validated by the RMC and reviewed regularly by the Executive Committee, bi-annually by and the Board Audit Committee and the Board.

Risk Management- Based on the risk scores derived from the risk register, the respective functions formulate strategies to curtail and mitigate these risk exposures. Responsibility for managing each identified risk is allocated to the head of each function (risk owners), who reports regularly to the RMC on the performance of defined risk parameters. Additionally, the potential impact of global trends and risks are also captured through input by the Regional Board Audit Committee, which also recommends improvements in internal controls in line with global best practices.



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

Principal Risks in 2017

The Company actively monitors its risk universe to proactively manage and mitigate numerous risk exposures. The following section details several (but not all) key risks that the Board believes could have the most significant impact on the Company's ability to create value. Some of these major risks are outside the control of CTC and other factors besides those listed below may affect the Company's performance. Some risks may be unknown at present; others which are currently immaterial, could emerge as material risks in the future.

Risk Management

Principal risks	Risk assessment compared to last year		Timeline of risk	Risk management mechanisms in place
	Impact	Likelihood		
Unfavourable and unplanned excise and taxes	Increase	Increase	Medium to long-term	✓
Unreasonable regulations and unlawful enforcement of tobacco regulations	Increase	Increase	Long-term	✓
Impact of price increases on consumer affordability	Increase	Increase	Short to medium- term	✓
Competition from illicit trade	Increase	Increase	Long-term	✓
Competition from beedi	Increase	Increase	Long-term	✓
Difficulties in recruiting / retaining talent	Unchanged	Unchanged	Long-term	✓

Increase   Unchanged

Competition from illicit trade

Illicit products consist of, smuggled products (counterfeit cigarettes and duty-not-paid genuine products) and locally manufactured products on which applicable taxes are evaded. Significant excise-led price increases in legally manufactured products and the resultant widening price disparity between legal and illegal products have continued to drive consumers to switch to cheaper illegal tobacco products and is a growing threat to the legitimate tobacco industry. The threat of consumption shifts is exacerbated during periods of economic hardship, high inflation and lower consumer spending. In Sri Lanka, illegal cigarettes are estimated to account for 6% of the total tobacco market, causing the Government around Rs.17 billion in revenue loss in 2017. This can be further aggravated owing to recent announcements on relaxation of import license through 2018 budget proposals.

Competition from beedi

Sri Lanka's beedi consumption has continued to grow underpinned by the frequent and sharp excise-driven price increases of factory manufactured cigarettes. By 2017, beedi accounted for almost 51% of the market, compared to just 20% in 2007. Overall, the manufacture of beedi, which is a flourishing cottage industry, is relatively under regulated and given the lack of a scientific mechanism to ensure quality standards, the likelihood of inferior produce being imported is high.

Unfavourable and unplanned excise and taxes impacting consumer affordability

Excise duties and taxes on tobacco products are a key source of government revenue leading successive governments to view the industry as a potential source of additional revenue during periods of fiscal difficulties. In 2017, the Company was faced with the dual impacts 43% hike in prices due to hike in excise duties and the imposition of VAT in 4th quarter of 2016. Adjusting of retail prices to reflect steep escalation of levies have an adverse impact on consumer affordability and overall value of the industry.

Unreasonable regulation and unlawful enforcement in tobacco regulation

As a responsible corporate citizen, CTC ensures full compliance with regulations at all levels. However, the enactment of unreasonable regulations and at certain times, the unlawful enforcement of regulations renders it challenging for the Company to compete effectively, increasing business costs and complexity. The Company has also taken steps to create and enhance the awareness of its trade partners on all applicable regulations.

Difficulties in attracting / retaining talent

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

Board of Directors

The Right Principles

YUDHISHTRAN KANAGASABAI
Independent Non-Executive Director

EMMA RIDLEY
Finance Director

SUSANTHA RATNAYAKE
Chairman

DINESH WEERAKKODY
Independent Non-Executive Director
(Photograph not shown)

KENNETH ALLEN
Non-Executive Director
(Photograph not shown)

MICHAEL KOEST
Managing Director and CEO

ANIL TITTAWELLA
Independent Non-Executive Director

SYED JAVED IQBAL
Non-Executive Director

Board of Directors : The Right Principles

Susantha Ratnayake
Chairman

Position
Chairman since March 2013 and Independent Non-Executive Director since October 2006.

Current appointments
Chairman / CEO of John Keells Holdings PLC.

Past appointments
Chairman of the Sri Lanka Tea Board, Ceylon Chamber of Commerce and Employers Federation of Ceylon.

Skills and experience
Over 39 years multi-faceted management experience within the John Keells Group and has served on its Board for over 21 years. He has also Chaired and served on numerous industry association committees

Michael Koest
Managing Director and CEO

Position:
Managing Director and CEO since March 2016.

Current appointments:
Non-Executive Director, Pakistan Tobacco Company Limited (PTC).

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

Past appointments:
Commercial Director BAT Korea

Director Primera BV, The Netherlands

Skills and experience:
Mr. Koest has a proven track record in sales and marketing at British American Tobacco – a global FTSE 100 FMCG business. He is experienced in working across geographies and in complex market environments, and he has built high performing, motivated and engaged teams through his inspiring and achievement driven leadership style. An extremely determined commercial leader, strategic thinker and renowned team player, he has consistently achieved outstanding business results. He holds a Bachelor of Arts in Philosophy and German literature from the University de Neuchatel.

Yudhishtran Kanagasabai
Independent Non-Executive Director

Position:
Non-Executive, Independent Director and Chairperson of the Board Audit Committee, Related Party Transaction Review Committee and member of Board Compensation and Remuneration Committee since 1st February 2018.

Current appointments:
Chairman of the Board Audit Committee of Union Bank PLC (A Texas Pacific Group Subsidiary)

Non-Executive Director and member of the Board Audit Committee of Cargills Food Company Limited

Non - Executive Director and member of the Board Audit Committee of Hunters Limited PLC

Non - Executive Director and member of the Board Audit Committee Lanka Canneries Limited

Past appointments:
Senior Partner / Chief Executive Officer of PricewaterhouseCoopers.

Skills and experience:
A Fellow of the Institute of Chartered Accountants of Sri Lanka. Counts over 35 years of experience at PricewaterhouseCoopers, Sri Lanka and Singapore. Has served on committees of the Institute of Chartered Accountants of Sri Lanka.

Anil Tittawella
Independent Non-Executive Director

Position:
Non-Executive, Independent Director and member of Related Party Transaction Review Committee, the Board Audit Committee and Board Compensation and Remuneration Committee since 1st February 2018.

Current appointments:
Directorships in Orient Finance Lanka PLC, Hyundai Lanka Limited and Shipping & Cargo Logistics Limited (Aitken Spence Group)

Past appointments:
Member of Committee on Company Law Reform of the Bar Association of Sri Lanka (1995-1996)

Member of Ceylon Chamber of Commerce Committee on Company Reforms (1993)

Member of Sri Lanka Swedish joint Legal team to formulate the new Arbitration Act of Sri Lanka (1994-1997).

Legal Consultant to the Airport and Civil Aviation Authority of Sri Lanka (1994-1997)

Founding Member of the Institute of Commercial Law and Practice in Sri Lanka (1995)

Commission Member of the Securities and Exchange Commission of Sri Lanka (2000 – 2002)

Member of Insurance Board of Sri Lanka (2001-2002)

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

Emma Ridley

Finance Director

Position:

Finance Director since August 2016.

Current appointments:

N / A

Past appointments:

Commercial Finance Manager and Supply Chain Finance Manager for BAT Australia.

Skills and experience:

Ms. Ridley has over 10 years' experience in international markets across British American Tobacco (BAT) Group as well as in Audit. Emma has a proven track record for managing, directing and driving growth in both business and talent.

She holds a Bachelor of Science BSc (Hons) in Mathematics and Statistics from the University of Bath and is a qualified fellow of the Institute of Chartered Accountants of England and Wales. Recently she has become an accredited member of the Australian Institute of Company Directors (AICD).

Syed Javed Iqbal

Non-Executive Director

Position:

Non-Executive Director since May 2014.

Current appointments:

Area Head, South Asia Cluster

Past appointments:

Finance Director for the BAT Swiss business unit.

Finance Controller for BAT South Korea.

Director Finance and IT of BAT Pakistan.

Skills and experience:

Mr. Iqbal has been with the BAT Group for the last 20 years. He joined the Group as a Management Trainee and has held various key positions in the Finance function in BAT, Pakistan as well as in British American Tobacco Group. He has served in BAT South Korea as Finance Controller and later in Global Headquarters in London as Finance Manager for Global Marketing. In 2011, he was appointed as Finance Director for the Swiss Business Unit looking after 5 European markets based in Switzerland. He came back to Pakistan in 2014 as Director Finance & IT for PTC. In July 2016, he became the Managing Director & Chief Executive Officer of BAT, Pakistan. Mr. Iqbal has an MBA with majors in Finance & MIS.

Kenneth Allen

Non-Executive Director

Position:

Non-Executive Director and member of Board Audit Committee since October 2014

Current appointments:

Head of Regional Operations for Finance at BAT Singapore.

Past appointments:

Operations Finance Manager and Corporate Finance Manager for BAT New Zealand.

Supply Chain Finance Manager and Finance Controller for BAT Australia.

Skills and experience:

Mr. Allen has over 25 years of experience in the tobacco industry and has held several senior appointments within the BAT Group. He holds a degree in Commerce with Accounting Major from University of Western Sydney and is a qualified Certified Public Accountant (CPA) of Australia.

Dinesh Weerakkody

Independent Non-Executive Director

Position:

Independent Non-Executive Director since July 2014.

Current appointments:

Advisor to Ministry of National Policy and Economic Affairs.

Chairman National Human Resource Development Council of Sri Lanka.

Chairman Cornucopia Lanka Ltd and Zamlank Developers.

Senior Vice President of the International Chamber of Commerce (Sri Lanka Chapter).

Non-Executive Director of GlaxoSmithKline Sri Lanka, Hemas Holdings PLC, CIC Holdings PLC, Access Engineering PLC and Galle Face Hotel Management Company.

Director / Advisor of Cornucopia Bangalore, India.

Past appointments:

Chairman of Commercial Bank of Sri Lanka.

Chairman / CEO of Employees' Trust Fund Board of Sri Lanka.

Director of DFCC Bank.

Advisor to the Prime Minister from 2002-2004.

Skills and experience:

Mr. Weerakkody has multi-disciplinary experience in the private and public sectors and has served in many cabinet sub-committees and national level committees on economic affairs, international affairs etc. He has also published widely on Human Resources, Leadership, Management, International Relations and Development Issues, and has been involved in large-scale research projects in the USA. He has presented many papers at national and international level.

Executive Team

Strong Leadership

RUKSHAN GUNATILAKA
Head of Supply Chain

EMMA RIDLEY
Finance Director

MICHAEL KOEST
Managing Director and CEO

ARUNA DISSANAYAKE
Head of Human Resources

DINESH DHARMADASA
Head of Legal and External Affairs

RANJAN SENEVIRATNE
Company Secretary and Head of Legal

KAVINDA NANAYAKKARA
Head of Marketing

Corporate Governance

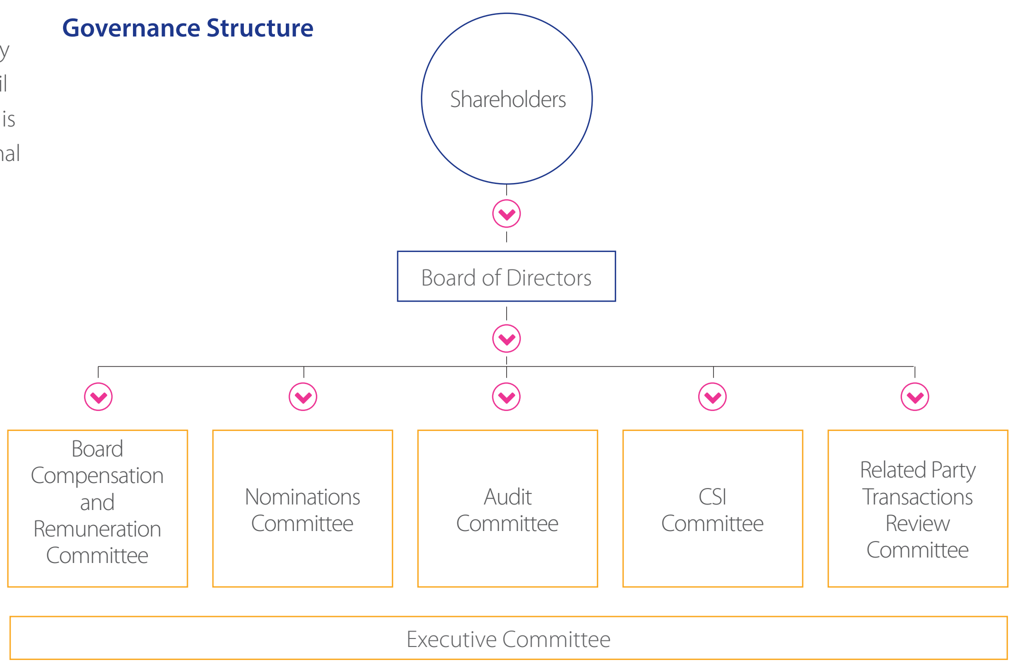
Approach and Philosophy

At CTC, sustainable value creation is underpinned by robust corporate governance frameworks which enable us to facilitate and nurture strong relationships between the Board, shareholders, employees and other stakeholders. Our strong governance philosophy is our vehicle to sustainable business relationships, business integrity and transparency and long-term value creation to all our stakeholders. The governance framework in place at CTC extends beyond legal requirements to embrace voluntary codes and international best practices.

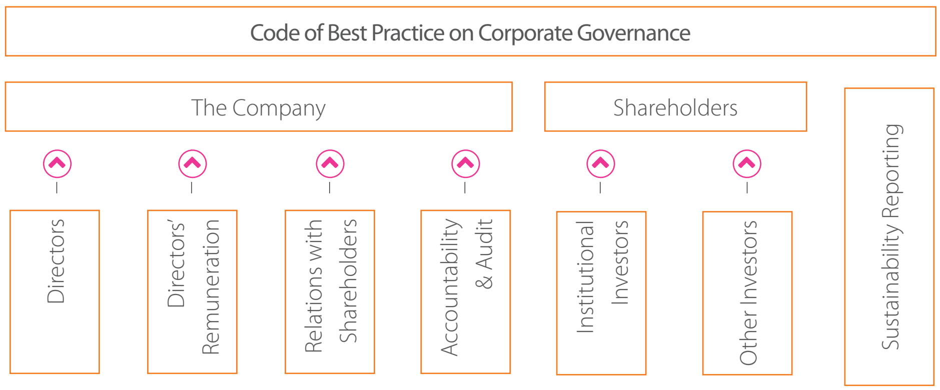
CTC's corporate governance framework has been developed broadly in line with the Group's policies, principles and standards and refined to comply with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant laws and regulations. The Company has also adopted the Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities & Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka, the G4 standards for Sustainability Reporting issued by the Global Reporting Initiatives and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). The Company's governance framework is governed by the following external and internal instruments;

Standards and Principles		Governance systems
Internal	External	
• Vision, Guiding principles and "Must Do's" • Articles of Association • Standards of Business Conduct • Anti-Bribery & Corruption guidelines • Group's Corporate Governance Framework and practices • Statement of Delegated Authorities • Group's Stakeholder Engagement Guidance • Terms of References for Board and Board sub-committees • Comprehensive framework of policies, systems and procedures	• Companies Act No. 7 of 2007 • Listing Rules of the Colombo Stock Exchange • Code of Best Practice on Corporate Governance issued by the SEC and ICASL • Sri Lanka Accounting Standards • Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) • G4 Standards for Sustainability reporting issued by the Global Reporting Initiative	• Strategic planning • Stakeholder engagement and management • Risk management • Regulatory compliance • People management • CSI governance • Internal and external audit • Related Party Transactions

Governance Structure



The subsequent discussion on the Company's governance practices has been structured in line with the requirements of the Code of Best Practice (issued by the SEC and ICASL) with the objective of providing a comprehensive yet concise description on all governance-related aspects as outlined in the diagram below.



Board of Directors

CTC's Board consists of six Non-Executive Directors (including the Chairman) and two Executive Directors. The Managing Director / CEO and Finance Director are the executive directors on the Board. (Please refer page 76 for full profiles of Directors). The BAT Group is represented by two Directors, who hold no executive functions in CTC. The composition of the Board, the balance between Executive and Non-Executive representation and the calibre of Non-Executive Directors ensure that power is appropriately balanced within the Board.

Of the Non-Executive Directors, four are deemed independent of management and free of any business or other relationship that could materially affect the exercise of their independent judgement. Annual declarations of independence or non-independence are obtained from all Directors in accordance with the stipulations of the Listing Rules of the CSE and the guidelines of the Code of Best Practice.

The overall effectiveness of the Board is enhanced by the diversity and breadth of perspectives of its members, who combine professional and academic skills and experience both locally and internationally. Collectively, the Board also has sufficient financial acumen and knowledge with four Directors holding membership in professional accountancy bodies. All Directors have received comprehensive training when first appointed to the board and thereafter encompassing both general aspects of directorship and matters specific to the Company and industry. The Company has a procedure agreed to by the board of directors, to obtain independent professional advice where necessary, at the Company's expense.

The Board is collectively responsible to the shareholders of the Company for its long-term success and the Company's strategic direction, values and governance. In addition to its legal and statutory responsibilities, the Board's role includes;

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

Corporate Governance

Sub-Committee	Composition	Mandate
Board Audit Committee	Two Independent Non-Executive Directors and a Director holding a key financial role in a Group subsidiary but does not hold executive functions in CTC. The committee is chaired by an Independent Non-Executive Director who is member of a professional accounting body with adequate experience.	Support the Board and the Group's relevant Regional Audit Committee in ensuring the integrity of financial statements, management of business risks, internal control and compliance, and conduct of business in accordance with the SOBCs.
Board Compensation and Remuneration Committee	Consists of three Independent Non-Executive Directors. Chaired by the Chairman of the Board.	Responsible for determining the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors, the Executive Committee and the Management staff of the Company.
Nominations Committee	Consists of two Independent Non-Executive Directors and one Executive Director. Chaired by an Executive Director on the Board.	Provide recommendations to the Board on suitable candidates for appointment to the Board ensuring that the Board has a diverse appropriate balance of skills and experience.
Related Party Transactions Review Committee	Consists of two Independent Directors and the Finance Director. Chaired by an Independent Non-Executive Director.	Review and provide recommendations on related party transactions in line with the CSE listing rules and SEC Code on Related Party Transactions.
CSI Committee	Chaired by the Chairman of the Board.	Ensure that the Company's CSI activities are in line with the Company's CSI strategy and are managed in a transparent and effective manner.

The Board meets on a quarterly basis with special meetings convened if and when the need arises. The Board agenda is set by the Chairman in consultation with the Managing Director / CEO and the Company Secretary. Other members of the Executive Board and senior management are invited to meetings from time to time, in particular when the Company's business strategy and annual budgets are under discussion. Board papers are circulated through Diligent Board pad at least five working days prior to the meetings, providing adequate time for preparation, thereby ensuring informed decision making.

Board Induction

All Directors receive induction on joining the Board, covering their duties and responsibilities as Directors and information covering matters pertaining to the Company and the industry. An induction pack, consisting of the Company's Articles of Association, the NATA Act, Board Charters and Annual Reports among other is provided to all newly appointed Directors. Non-Executive Directors undergo a 3-day induction programme, with comprehensive coverage on all operational aspects. These sessions consist of;

- One-to-one session with the Chairman;
- Sessions with department heads including presentations covering all functions which include marketing, supply chain, finance, human resources, and legal and external Affairs;
- Market visits covering multiple channels including general trade, modern trade and hotels / restaurants; and
- Site visit to factory and an area of tobacco cultivation, providing Directors with an opportunity to meet tobacco farmers and barn owners.

In addition, Directors regularly receive briefings designed to update their skills and knowledge, for example in relation to the business and on legal and regulatory requirements. Directors also participate in relevant external training sessions, such as those organised by the Sri Lanka Institute of Directors.

Board Meetings

The Board meets on a quarterly basis with special meetings convened if and when the need arises. The Board agenda is set by the Chairman in consultation with the Managing Director / CEO and the Company Secretary. Other members of the Executive Board and senior management are invited to meetings from time to time, in particular when the Company's business strategy and annual budgets are under discussion. Board papers are circulated electronically and in hard copy form at least five working days prior to the meetings, providing adequate time for preparation, thereby ensuring informed decision making.

Director	Board	Board Audit Committee	Board Compensation and Remuneration Committee	Nominations Committee	CSI Committee	Related Party Transactions Review Committee
Mr. Susantha Ratnayake **	04 / 04+		01 / 01+	01 / 01+	01 / 01+	
Mr. Michael Koest	04 / 04			01 / 01	01 / 01	
Mrs. Emma Ridley	04 / 04	02 / 02^			01 / 01	04 / 04
Ms. Premila Perera ** (Resigned w.e.f. 22 October 2017)	02 / 03	02 / 02+	01 / 01			01 / 02+
Mr. Yudhishtran Kanagasabai ** (Appointed w.e.f. 1 February 2018)	⅄	+ ⅄				+ ⅄
Mr. Anil Tittawella ** (Appointed w.e.f. 1 February 2018)	⅄	⅄				⅄
Mr. Javed Iqbal *	04 / 04					
Mr. Kenneth Allen *	04 / 04	02 / 02				
Mr. Dinesh Weerakkody **	03 / 04	02 / 02				02 / 03

* Non-Executive Director
** Independent Non-Executive Director
\+ Chairperson of the Committee
^ Invitee to the Committee
⅄ Attended the first meeting on 13 February 2018

Compliance with all applicable laws and regulations are ensured through a comprehensive framework of policies and stringent internal controls. The Company's regulatory and statutory obligations are clearly identified, and defined compliance responsibilities are allocated to the relevant departments. A checklist of regulatory payments including excise and sales tax, EPF and ETF contributions are tabled for review to the Board Audit Committee as part of its agenda. The Company Secretary and the Legal and External Affairs department keeps the Board abreast of any changes in the regulatory and statutory environment, particularly pertaining to the National Authority on Tobacco and Alcohol (NATA) Act.

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

Conflicts of Interest

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

Board Evaluation

The Board conducts a critical evaluation of its activities on an annual basis facilitated by the Company Secretary. Performance is reviewed against the recommended checklist of the Institute of Chartered Accountants of Sri Lanka whilst the effectiveness of the Board Audit Committee is also evaluated separately. The

Corporate Governance

results of the overall evaluation are discussed with the Chairman and presented to the Board and each of the Committees in respect of its own performance.

Remuneration Policy

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

Further details on the activities of the Board Compensation and Remuneration Committee are provided on page 101 of this Report. The aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 122 of this Report.

Stakeholder Engagement

The Company strives to engage with its shareholders in a continuous and open manner. The Annual General Meeting is the main forum for engagement and is generally well attended. Notice of the AGM and relevant documents are sent to shareholders at least 15 working days prior to the AGM. A summary of procedures governing voting at the AGM is provided in the proxy form and circulated to shareholders prior to the meeting. Directors, including the Chairman of the Board Audit Committee attend the AGM to respond to questions raised by shareholders.

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

Board Activities in 2017

The key activities of the Board in 2017, grouped under the four strategic pillars of Growth, Productivity, Sustainability and Winning Organisation are detailed on page 84.

Growth	• Reviewing the implementation of the Company's strategy and plan and monitoring performance against short-term and long-term strategic priorities. • Advising on CTC's product and portfolio strategy, with a view on enhancing consumer value through product offers, in the evolving consumer segments.
Productivity	• Reviewing savings generated through productivity and smart cost management initiatives across the Organisation and providing guidance for further optimisation. • Providing guidance for further utilisation of Company assets to increase shareholder value.
Winning Organisation	Reviewing and approving the Company's remuneration framework for management staff. • Adopting a competitive rewards scheme.
Sustainability	• Advising and evaluating of strategies to tackle different regulatory challenges. • Strengthening the Company's risk management framework. • Adopting and implementing a comprehensive business continuity plan. • Ensuring Corporate Governance and statutory compliance with increased focus on related party transactions. • Adopting standards of business conduct. • Adopting policies to ensure transparency and disclosure of information. • Managing relationships with external stakeholders. • Reviewing progress of CTC's corporate social investments. • Reviewing the Company's environment, health and safety policies and performance.

Accountability and Audit

The Board is collectively responsible for presenting an accurate and balanced assessment of the Company's performance, financial position and prospects. CTC's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer page 94), the Statement of Director's Responsibility (refer page 97), Directors' Statement on Internal Controls (refer page 92).

The Board Audit Committee supports the Board in ensuring the integrity of the Company's financial statements as well as internal controls and compliance. The Committee is chaired by a Non-Executive Director, who is a member of a recognised professional accounting body with extensive experience in relevant areas. The Chairperson works closely with the Company's Finance Director in discharging her responsibilities (Please refer to page 98 of this Report for the Board Audit Committee Report). The Terms of Reference of the Board Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL and guidelines stipulated by the CSE.

The Board Audit Committee is responsible for reviewing and monitoring,

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

External Auditors and Auditor Independence Policy: The Company's external auditors are KPMG and the principal / consolidator auditor has not engaged in any services which are in the restricted category as stipulated by the code of ethics issued by the Institute of Chartered Accountants of Sri Lanka. There is a formalised policy in place aimed at safeguarding and supporting the independence and objectivity of the Company's external auditors. As prescribed in this policy external auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity. The audit fees paid by the Company to its auditors are separately classified on page 123 of the Notes to the Financial Statements.

Risk Management and Internal Controls

The Board is responsible for determining the risk appetite that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. CTC's risk management and internal controls framework is aimed at safeguarding shareholders' investment, the Company's assets and evaluate and manage risks that may impede the Company's objectives. A discussion on the Company's key risk exposures and mitigation mechanisms are given in the Risk Management Report on page 70 of this document. A risk register based on a standardised methodology, is used to identify, assess and monitor financial and non-financial risks. Risk performance is monitored against defined parameters and reviewed by the Board on a consistent basis. Supported by the Board Audit Committee, the Board annually reviews the effectiveness of the Company's risk and internal control systems (Refer page 92 of this Report for Director's statement on Internal Controls)

Comprehensive policies and procedures, structured governance mechanisms and a conducive organisational culture have facilitated a strong compliance and control environment. Heads of key functions are required to annually complete a checklist (the Control Navigator) of the key controls that they are expected to have in place as part of a self-assessment mechanism for internal controls. Any material weaknesses and the action being taken to address them are also reported together with compliance to the Company's Standards of Business Conduct.

Standards of Business Conduct (SOBC)

The Company's SOBC policy was amended in line with the changes to the group SOBC to comply with US legal obligations and adopted by the Board. The new policy was cascaded to all Directors, employees and other working on behalf of the Company through a comprehensive awareness programme. It requires all staff to act in an ethical and transparent manner with high standards of business integrity, comply with all applicable laws and regulations and ensure that standards are never compromised for results. The Board Audit Committee is responsible for monitoring compliance with the SOBC and during the year, there were no material violations of any provisions stipulated in the SOBC.

All employees are also required to disclose any material conflicts of interest (defined in the SOBC) immediately and annual sign off in the portal. BAT Group Compliance and Internal Control (BAT GC&IC) maintains a record of the potential conflicts declared by employees and the steps taken by the Company to avoid any actual conflicts.

Corporate Governance

Whistle-blowing

The Company's whistle-blowing policy enables staff to raise concerns of suspected wrongdoing without fear of reprisal or retribution. The policy allows employees to directly raise concerns with the Company Secretary or a designated officer. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Board Audit Committee. In 2017, the Company further strengthened its whistle-blowing policy and process, setting up a dedicated hotline managed by a third party. Employees are also able to communicate their concerns through an online portal.

Related Party Transactions

A Related Party Transactions Review Committee was set up during the year 2016, in compliance with the Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules. A formalised process is in place for related party transactions including identification of related parties, types of transaction and avoidance of conflict of interest. Directors individually declare their transactions with the Company on a quarterly basis and this information is published through the CSE. All related party transactions as defined by the applicable accounting standards are disclosed on Note 24 of the Financial Statements on pages 136 to 138 of this Report.

Sustainability and CSR

The principles of sustainability are embedded to the Company's strategy and forms an integral part of its value creation process. The Board is responsible for setting the tone in nurturing an organisational culture which emphasises the creation of sustainable stakeholder value by embracing opportunities and managing risks stemming from economic, environmental and social developments.

The Board is assisted by the CSI Committee in discharging its duties pertaining to CSI and Sustainability related issues. The CSI Committee monitors and reviews;

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

The Company's sustainability agenda was refined after a detailed materiality assessment, covering stakeholder engagement and research and the Company's three key sustainability priorities are;

- Harm reduction;
- Sustainable agriculture and farmer livelihoods; and
- Corporate behaviour.

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	Leadership and Governance on pages 80 to 90
7.10.2(a)	Independent Directors	2 or 1 / 3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Leadership and Governance on pages 80 to 90
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence / non-independence	Compliant	Leadership and Governance on pages 80 to 90
7.10.3(a)	Disclosure relating to Directors	a. The Board shall make a determination annually as to the independent or non independence of each Non Executive Director b. Names of independent Directors should be disclosed in the Annual Report	Compliant	Leadership and Governance on pages 80 to 90 Section of Board of Directors on pages 74 to 77
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 74 to 77
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 provide to the CSE.	Compliant	Section of Board of Directors on pages 74 to 77
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing	Compliant	All four Independent Directors meets the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Board Compensation and Remuneration Committee Report on page 101
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Board Compensation and Remuneration Committee Report on page 101
7.10.5(b)	Report of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Board Compensation and Remuneration Committee Report on page 101
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	Compliant	Leadership and Governance on pages 80 to 90
		b. Statement of remuneration policy	Compliant	Board Compensation and Remuneration Committee Report on page 101
		c. Aggregate remuneration paid to Executive & Non Executive Directors	Compliant	Note No 5 to Financial Statements on page 122
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of Board Audit Committee on pages 98 to 99

Corporate Governance

Corporate Governance Compliance Table

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Report of Board Audit Committee on pages 98 to 99
		b. Chief Executive Officer and the Chief Financial Officer should attend Board Audit Committee Meetings	Compliant	Report of Board Audit Committee on pages 98 to 99
		c. The Chairman of the Board Audit Committee or one member should be a member of a professional accounting body	Compliant	Report of Board Audit Committee on pages 98 to 99
7.10.6(b)	Audit Committee Functions	Overseeing of the, (i) Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards.	Compliant	Report of Board Audit Committee on pages 98 to 99
		(ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	Report of Board Audit Committee on pages 98 to 99
		(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	Report of Board Audit Committee on pages 98 to 99
		(iv) Assessment of the independence and performance of the external auditors.	Compliant	Report of Board Audit Committee on pages 98 to 99
		(v) Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.	Compliant	Report of Board Audit Committee on pages 98 to 99
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Board Audit Committee	Compliant	Report of Board Audit Committee on pages 98 to 99
		b. The Board Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Report of Board Audit Committee on pages 98 to 99

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
		c. The Annual Report shall contain a Report of the Board Audit Committee setting out the manner of Compliance of the functions	Compliant	Report of Board Audit Committee on pages 98 to 99
9.2.1	Related Party Transactions Review Committee	The Company shall have a Related Party Transactions Review Committee (RPTRC)	Compliant	Report of RPTRC on page 100
9.2.2	The composition of RPTRC	The committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors	Compliant	Report of RPTRC on page 100
		One Independent Non-Executive Director should be appointed as Chairman of the Committee	Compliant	Report of RPTRC on page 100
9.3.2.(c)	Disclosure in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee;	Compliant	Report of RPTRC on page 100
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments / observations to the Board of Directors.	Compliant	Report of RPTRC on page 100
		The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Report of RPTRC on page 100
		The number of times the Committee has met during the Financial Year	Compliant	Report of RPTRC on page 100
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Report of the Directors on pages 94 to 96

Corporate Governance

Other Directorships of Directors as at 31 DECEMBER 2017

Name of the Director	Name of the Company	Position held
Mr. Michael Koest	Pakistan Tobacco Company Limited	Director
Ms. Emma Ridley	-	-
Mr. Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mr. Javed Iqbal	Pakistan Tobacco Company Limited	Director
Mr. Kenneth Allen	British American Tobacco (Singapore) Pte Limited	Director
	British American Tobacco Marketing (Singapore) Pte Limited	Director
	British American Tobacco Asia Pacific Treasury Pte Limited	Director
	Rothmans Industries Private Limited	Director
Mr. Dinesh Weerakkody	Ministry of National Policy and Economic Affairs	Advisor
	National Human Resource Development Council of Sri Lanka	Chairman
	Cornucopia Lanka Limited	Chairman
	Zamlank Developers	Chairman
	International Chamber of Commerce (Sri Lanka Chapter)	Senior Vice President
	GlaxoSmithKline Sri Lanka	Director
	Hemas Holdings PLC	Director
	CIC Holdings PLC	Director
	Access Engineering PLC	Director
	Galle Face Hotel Management Company	Director
	Cornucopia Bangalore India	Director / Advisor

Assessment of Going Concern

The financial statements of CTC for the year ended 31 December 2017 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 pro-activeness and compliance with legal and statutory requirements.
- Low likelihood that legal cases filed against the Company will have significant adverse effect on its operations.
- Robust risk management process and migratory action plans.

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 an appropriate allocation of resources is made to maintain the right standard.

CTC has created a strong control environment through application of the business principles, responsible product stewardship and good Corporate Governance, which defines the way the business operates. These are further supported by the guiding principles Strength from Diversity, Open Mindedness, Freedom through Responsibility and Enterprising Spirit that collectively shape the culture and framework in up keeping the right control environment that currently exists.

To be effective, internal controls must:

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

Control activities include a comprehensive list of policies and procedures which ensures that the management directives are carried out and the necessary controls are in place to minimise the risk of not meeting 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 the Company assets against unauthorised use or disposition;
- reliability of financial and other management information;
- prevention of fraud; and
- compliance with relevant national laws and other applicable regulations.

Within this framework, each Head of Function has the responsibility for establishing and operating detailed control procedures within their functions. A detailed checklist of controls, called the "Control Navigator" is available for each function. Management does a thorough self- assessment against the standard controls set out in the Control Navigator and prepares action plans to bridge the gaps if any, which is presented to the Board 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; and
- 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 the 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; and
- 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 Board Audit Committee. The scope of the Board Audit Committee is described in the Corporate Governance Statement and in the Statement of the Chairperson of the Board Audit Committee. To ensure complete independence, both external and internal auditors have full and free access to the members of the Board Audit Committee to discuss any matters of substance. The external auditors attend the Board Audit Committee meetings.

Audit reports and findings are presented at the Board Audit Committee meetings. Functional heads are required to provide annual written confirmation to the Board Audit Committee that they have complied with the policy statement on internal control.

These best practices were complied with during the year 2017.

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.

Michael Koest
Managing Director and CEO

Emma Ridley
Finance Director

13 February 2018

Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31 December 2017, 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)

Results for the year 2017 and appropriations

	Rs.000's	Rs.000's
Retained profit as at 1st January 2017		1,611,648
Current year's profit after charging all expenses and providing for all known liabilities		14,586,464
Dividends		
Dividends of Rs. 72.00 per share on the Issued Share Capital of 187,323,751 shares		
2016 Final dividend - Rs. 6.00 per share paid on 11/04/2016		
First Interim dividend - Rs. 15.00 per share paid on 30/05/2017		
Second Interim dividend - Rs. 16.00 per share paid on 30/08/2017		
Third Interim dividend - Rs. 17.50 per share paid on 04/12/2017		
Fourth Interim dividend - Rs. 17.50 per share paid on 19/01/2017		
Net dividend	(12,139,419)	
Dividend Tax	(1,347,892)	
		(13,487,311)
Write back of unclaimed dividends		12,773
Re-measurement of Plan Asset		(26,458)
Balance carried forward to 2018		2,697,116

Interim dividends of Rs. 12,363 million have been paid and a final dividend of Rs. 2,210 million proposed from current year profits after tax of Rs. 14,586 million.

Capital Expenditure

The Company capitalised a sum of Rs. 226 million in property plant and equipment in its modernisation programme. The movements in property, plant and equipment for the year are shown in Note 11 to the financial statements. Market value of the properties are disclosed under Note 11(a).

Donations

Included in the current years result is a sum of Rs. 54 million on Corporate Social Investments shown in Note 7 to the financial statements.

Contingent Liabilities and Capital Commitments

Contingent Liabilities and Commitments as at the year-end are disclosed in Notes 21 and 22 to the financial statements.

Directorate

The names of the Directors are disclosed in pages 74 to 75 of the Annual Report.

In accordance with the Colombo Stock Exchange Rule No.7.10.4 the Directors determined that Susantha Ratnayake, Dinesh Weerakkody, Yudhishtran Kanagasabai and Anil Tittawella, as Independent Directors based on declarations made by them according 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 Mr Kenneth George Allen, Mr Syed Javed Iqbal retire from the Board of Directors by rotation at the Annual General Meeting and being eligible, be proposed for re-election.

Mr Anil Tittawella and Yudhishtran Kanagasabai who were appointed since the last Annual General Meeting, come up for re-election under the Company's Articles of Association

Directors' Interest in Contracts and Related Party Transactions

Directors' interests in contracts and related party transactions are disclosed in Note 24 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.

The Related Party Transaction Review Committee set-up by the Board, in compliance with SEC Code on RPTs and the listing rules of CSE, is responsible for reviewing the RPTs of the Company.

Results for the year 2017 and appropriation

	2017	2016	Growth
Gross revenue (Rs. million)	139,041	121,525	14%
Profit for the year (Rs. million)	14,586	12,559	16%
No. of shares	187,323,751	187,323,751	-
Earnings per share - Rs.	77.87	67.05	16%
Net assets per share - Rs.	24.40	18.60	31%
Market price per share - Rs.	1,004.50	806.50	24%
Price earnings ratio	12.89	12.02	7%
Dividends per share - Rs.	72.00	64.50	12%

Director's Shareholding

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

	2017	2016
Mr. Susantha Ratnayake	644	644
Total	644	644

No Director other than those disclosed above have any shareholding.

Future Developments

Future Company developments are covered in the interview with the Chairman's Statement, Managing Director and CEO's Statement and Finance Director's Review.

Reserves

Total reserves as at 31 December 2017 comprise of revenue reserves amounting to Rs. 2,697 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. 2,210 million.

Report of the Directors

Major Shareholdings

The 20 major shareholders and percentages are disclosed on page 143.

Employee Share Ownership Plans

The Company has no share ownership plans as at 31 December 2017. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers value of phantom shares in BAT Plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments in relation to employees and 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 Legal and External 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 KPMG Chartered Accountants 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.

Michael Koest
Managing Director and CEO

Emma Ridley
Finance Director

13 February 2018

Statement of Directors' Responsibilities

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

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 -

- A Balance Sheet, which presents a true and fair view of the state of affairs of the Company as at the end of the financial year, and which comply with the requirements of the Act; and
- A comprehensive Income Statement, balance sheet, cash flow statement and statement of changes in equity which present a true and fair view of the profit and loss of the Company for the financial year.

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

- The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained;
- All applicable Sri Lanka Accounting Standards (SLAS), as relevant, have been followed;
- Judgments and estimates have been made which are reasonable and prudent.
- Provides the information required by and otherwise comply with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

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

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

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

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

The Financial Statements were audited by KPMG Chartered Accountants, the independent external auditors.

The Board Audit Committee of our Company meets four times annually with the internal auditors and the independent external auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent external auditors and the internal auditors have full and free access to the members of the Board 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 balance sheet date have been paid or, where relevant provided for, except as specified in Note 21 to the Financial Statements covering contingent liability.

Susantha Ratnayake
Chairman

Michael Koest
Managing Director and CEO

13 February 2018

Report of the Board Audit Committee

The Role of the Board Audit Committee

The role of the Board Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance report on page 82.

Members of the Board Audit Committee

Mr. Yudhishtran Kanagasabai
Chairperson

Mr. Kenneth Allen

Mr. Anil Tittawella

Chairperson of the Board Audit Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and was the former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka. During the year, Ms. Premila Perera retired in October 2017 and Mr. Yudhishtran Kanagasabai was appointed as the Chairman of the Board Audit Committee from February 2018. Further, Mr. Anil Tittawella joined as a member of the Board Audit Committee in February 2018.

The composition of the Board 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 Managing Director and CEO, the Finance Director and the Engagement Partner of the external audit firm attend meetings on invitation. The Company Secretary serves as the Secretary to the Committee

The Board is satisfied that the Committee have the requisite experience in the fields of Accounting, Auditing and Manufacturing. Brief profiles of the Committee members are given in pages 76 to 77.

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

The Board Audit Committee met twice during the period under review.

Terms of Reference

The Charter of the Committee, which is subject to review and revision periodically by the Board of Directors, clearly defines the Terms of Reference of the Committee. The Committee meets periodically with the Company's senior financial and internal audit management and the external auditor to consider, inter alia, the Company's financial reporting, the nature and scope of audit reviews and the effectiveness of the systems of internal control relating to financial reporting. It also assists the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit.

Key Responsibilities of the Board Audit Committee

Financial Reporting:

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Company's financial statements and formal announcements, if any, relating to the Company financial performance. The Committee reviewed and discussed with the management, the internal auditors and the external auditors on the critical accounting policies, practices, related changes thereto, alternative accounting treatments, major judgemental areas, material audit adjustments, compliance with accounting standards, going concern assumption, financial reporting controls and compliance with applicable laws and regulations that could impact the integrity of the Company's financial statements, its annual report and its quarterly financial statements prepared for publication.

Internal Controls:

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems and for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The Committee reviews the effectiveness of the Company's internal controls through review and follow-up of the Company's internal audit reports. The Committee reviewed the Control Navigator, which is a self-assessment of the Control Environment and the Internal Control Statement prepared by management for submission to BAT Global Office. The Committee has discussed control environment issues, their root causes and management responses and remediation activities. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations.

Internal Audit:

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The BAT Group Internal Audit function provides independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes across the Group, focusing on the areas of greatest risk to CTC using a risk - based approach. Executive management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable. The Committee noted the internal audit plan for 2017 at the beginning of the year as proposed by the BAT Group Internal Audit function and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored.

External Audit:

The Committee has exercised oversight of the work undertaken by the Company's Auditor – KPMG during the year. The Committee has also reviewed the scope of, and the results of, the external audits and the independence and objectivity of the external auditor. The Auditors were also provided with the opportunities of meeting the Committee independently, to discuss and express their opinions on any matter and for the Committee to have the assurance that the Management has fully - provided all information and explanations requested by the Auditors. The Committee reviewed the Management Letter issued by the External Auditors (KPMG) highlighting opportunities for improvement which were observed during the audit and the letter of representation issued to the external Auditor to ensure that the representations made were consistent with the understanding of the Committee, as to the Company's operations and plans.

The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be reappointed for the financial year ending 31 December 2018 subject to the approval of shareholders at the next Annual General Meeting.

Changing regulatory landscape:

Given the changing legal and regulatory landscape, the Committee received presentations and updates from management on the Company's readiness on proposed regulations.

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 have been 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.

Appreciation:

The Committee records its appreciation of the services rendered by Ms. Premila Perera the outgoing chairperson of the Committee, KPMG 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.

Yudhishtran Kanagasabai
Chairperson,
The Board Audit Committee

13 February 2018

Report of the Related Party Transaction Review Committee (RPTRC)

The Related Party Transactions Review Committee of Ceylon Tobacco Company PLC was established effective from 1 January 2016 in compliance with the Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules. The Committee comprises of two Independent Directors, the Finance Director and is Chaired by an Independent Non-Executive Director as noted below:

Members of the Related Party Transaction Review Committee

Mr. Yudhishtran Kanagasabai
Chairperson

Mr. Anil Tittawella

Ms. Emma Ridley

In addition, the Chief Executive Officer of the Company or any other manager of the Company will attend a meeting on the request of the Committee. The Finance Director or in his / her absence his / her nominee subject to approval of the Committee will act as the Secretary of the Committee.

The objective of the Committee is to ensure on behalf of the Board, that all Related Party Transactions (RPTs) of Ceylon Tobacco Company PLC are compliant with the mandates of the SEC Code and CSE listing rules. The Committee in discharging its functions ensured that;

- there is compliance with the aforesaid SEC Code and CSE listing rules;
- shareholder interests are protected; and
- fairness and transparency are maintained.

The approved Guidelines for conducting Related Party Transactions sets out, among others, the following:

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

The Committee held four Meetings in relation to the year 2017 and the activities and the observations of the Committee have been communicated to the Board of Directors.

There were no Non-recurrent RPTs which required pre-approval by the Committee and Recurrent RPTs were reviewed on a quarterly basis for noting.

The Committee records its appreciation of the services rendered by outgoing Chairperson Ms. Premila Perera in assisting the Company to maintain high standards in the conduct of related party transactions in conformity with the Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules.

Yudhishtran Kanagasabai
Chairperson,
The Related Party Transaction Review Committee

13 February 2018

Report of the Board Compensation and Remuneration Committee

The purpose of The Board Compensation Committee of Ceylon Tobacco Company 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 & executives, so that remuneration policy at all times remains both competitive and sustainable in terms of attracting and retaining talent.

Members of the Board Compensation and Remuneration Committee

Mr. Susantha Ratnayake
Chairperson

Mr. Yudhishtran Kanagasabai

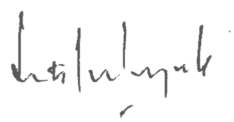
Mr. Anil Tittawella

The scope of the committee includes the following:

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

The Board Compensation Committee met on one occasion during the year 2017. During this meeting, The Board Compensation Committee reviewed below topics and approval was granted.

- Approach to pay Ranges Review due to Implementation of Human Resource Shared Services.
- Pay Range movements and salary increment proposals
- Bonus payment for employee based on Company's performance for 2016



Susantha Ratnayake
Chairperson,
The Board Compensation and Remuneration Committee

13 February 2018

Finance Director's Review 2017

VOLUMES	REVENUE	PAT	CASH FLOW FROM OPERATING ACTIVITIES	EPS
3.15bn	139.0bn	14.6	15.1	77.87
-18%	+14.4%	+16.1%	+2.6%	+16.1%

Overview

CTC remains committed to delivering and continued to deliver consistent value as well as returns to shareholders within the year despite the external challenges facing the Organisation. 2017 was a year of record performance as a consequence of adopting a sustainable strategy for the future.

The 43% price increase experienced due to the excise hike in October followed by the introduction of 15% VAT in November 2016 led to a sharp decline of 18% in the volume of legal cigarettes in Sri Lanka. This resulted in price pressured consumers switching to cheaper, illegal and under regulated substitutes, thus paying less for each cigarette while the total tobacco consumption in the country remained unchanged.

Financial results of 2017 reflect a sustainable high performance with a top line growth of 14.4% to Rs. 139.0 billion and 16.1% growth in profit after tax to Rs. 14.6 billion. Management continually reviewed the assets, contracts and operations for opportunities to better utilise assets, identify investment opportunities for growth, reduce costs and improve efficiency. These initiatives contributed significantly to maintaining delivery of value to our shareholders.

Revenue and Profit from Operations

Gross Revenue increased by 14.4% to Rs. 139.0 billion due to the pricing increase of 43% during the 4th quarter of 2016. This was restricted by eroding volumes against previous financial year. As a result, while government revenue increased by 19.6% to Rs. 107.4 billion in 2017, the revenue opportunity for the Government was been negatively impacted by the tax increase.

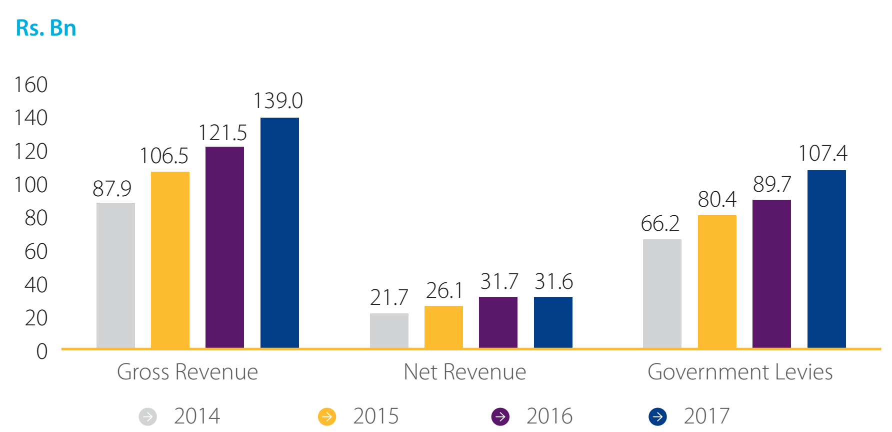
Unfortunately for CTC the impact of the price increases was only enough to marginally offset the volume decline and net revenue remained flat at Rs. 31.7billion. Despite this we delivered a solid bottom line as a result of lean and agile cost base and internal operations.

As the challenge of consumer disposable income coupled with the widening price gap between legitimate cigarettes and under regulated tobacco products continues, legitimate volumes will be restricted having an impact on Government and CTC revenues into the future.

Operating expenses decline by 32%, as a consequence of the constructive liability and obligations on behalf of key business partners in the value chain due to indirect tax included in 2016. Significant investment has been made in strengthening relationships with distributors, retailers and farmers through engagement, time and financial resources during the year to assist in providing sustainable livelihoods for all individuals in the value chain.

This investment has also been reflected to develop our talent proposition to equip the team with the appropriate skills to cope in the continually challenging external environment. In addition investments were made to tackle the challenges in the external environment - namely consumer affordability, radical regulations as well as tackling the rise in illicit products.

CTC continued to invest in the flagship Corporate Social Responsibility initiative, the Sustainable Agricultural Development Programme (SADP), supporting underprivileged rural communities.



Investment for Growth

Despite the decline in volumes, the Company remained committed to invest in its brands to ensure sustainable long-term returns, establishing a portfolio that addresses the dynamic consumer needs within market. In 2017, CTC also focused on adding value for consumers with the JPGL Core franchise in light of the significant price increase. The Company's continued commitment to product quality, driving value through a more premium product mix with Dunhill brand has continued to gather momentum with healthy volumes leading to a growth in the premium segment of 6% to 122 million sticks.

John Player Gold Leaf retained its position as the market leader and the most valuable brand in our portfolio. In order to address consumer affordability, as well as safeguard both industry and government revenue, in October 2017, the Company launched a new offer in the mid length segment - John Player Navy Cut (JPNC) which catered to price sensitive consumers. In order to narrow the price gap with consumer alternatives, investment was made during the year in capital expenditure as well as brand launches and trade marketing support initiatives.

CTC has a disciplined approach to capital investment. Expenditure is made to improve the efficiency of production and improve the experience of consumers through product innovations and a focus on quality. Capital investments of Rs. 226 million where made in 2017 in order to replace obsolete machinery and upgrade existing machinery in order to enhance efficiency and improve product quality.

Cashflow and Liquidity

The Company had yet another strong year and delivered improved cash flow results and had no debt funding at the end of the year. Close monitoring of the cash flow requirements and regular review of the investment position resulted in the optimisation of interest income, which increased by 76.9% in 2017 to Rs. 1.5 billion.

Higher profit, effective working capital management and effective resource allocation has resulted in a 2.6% increase in net cash flows from operating activities. Distributor credit exposure remained fully covered through bank guarantees and the distributor financing scheme.

Distributions and Returns to Shareholders / Creating Value for Shareholders

Profit before tax grew 15.7% to Rs. 24.6 billion, despite a net revenue position, while productivity and cost management initiatives helped to maintain operating margins.

Operating margins increased by 8.7% against 2016 to 72.8%.

Despite the unprecedented challenges presented by both the regulatory and competitive environment, the Company continued to generate sustainable value to its shareholders in 2017 delivering the highest dividend pay-out of 99.9%, and a dividend increase of 16.4% in 2017 including proposed final dividend.

Year on year, both dividends per share and earnings per share growth increased by 16.4% and 16.1%, respectively. When measured on a five-year annualised basis, both dividend per share and earnings per share growth ranked the highest relative to the Top 20 listed companies in the country.

The Company's share price closed the year at Rs. 1,004.50 from Rs. 806.5 the previous year, reflecting the confidence in the long-term strategy and ability to deliver results in a challenging environment against all odds.

		2017	2016	2015
Earnings per share	Rs.	77.87	67.05	56.77
Dividend per share	Rs.	72.00	64.50	41.45
Net Assets per share	Rs.	24.40	18.60	15.40
Share Price	Rs.	1,004.5	806.5	992.5
Dividend Yield		7.2	8.0	4.1

Emma Ridley
Finance Director

13 February 2018

Finance Team

Financial Statements

Financial Calendar

2017	
1st Quarter Results 2017	May 2017
2nd Quarter Results 2017	August 2017
3rd Quarter Results 2017	November 2017
4th Quarter Results 2017	February 2018
Annual Report for 2017	March 2018
87th Annual General Meeting	April 2018

2018	
1st Quarter Results 2018	May 2018
2nd Quarter Results 2018	August 2018
3rd Quarter Results 2018	November 2018
4th Quarter Results 2018	February 2019
Annual Report for 2018	March 2019
88th Annual General Meeting	April 2019

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.kpmg.com/lk

TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, ("the Company"), which comprise the statement of financial position as at December 31, 2017, and the statements of profit or loss and other comprehensive income, changes in equity and, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 108 to 139 of the annual report.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the -financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of 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

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

kpmg

CHARTERED ACCOUNTANTS
Colombo
13 February 2018

Statement of Profit or Loss and Other Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)

		Year ended 31 December	
	Note	2017	2016
Gross revenue	4	139,040,599	121,524,857
Government levies	4	(107,387,298)	(89,777,485)
Net revenue		31,653,301	31,747,372
Raw materials used		(2,675,614)	(3,274,380)
Employee benefit expenses	5	(1,293,407)	(1,400,151)
Depreciation expenses	11	(236,512)	(210,097)
Amortisation expenses	12	(405)	(8,358)
Other operating expenses		(4,429,424)	(6,509,587)
Other operating income	6	48,219	24,150
Operating profit	7	23,066,158	20,368,949
Finance income	8	1,504,465	850,389
Profit before income tax		24,570,623	21,219,338
Income tax expenses	9	(9,984,159)	(8,659,879)
Profit for the year		14,586,464	12,559,459
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	13	(26,458)	110,778
Total other comprehensive income for the year		(26,458)	110,778
Total comprehensive income		14,560,006	12,670,237
Earnings per share			
- Basic (Rs)	10	77.87	67.05
- Diluted (Rs)		77.87	67.05

The Notes on pages 112 to 139 form an integral part of these financial statements.

Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands)

	Note	As at 31 December 2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	11	2,258,007	2,268,972
Intangible assets	12	-	886
Employee benefit plan asset	13(b)	673,062	652,270
Other receivables	15	125,766	142,277
		3,056,835	3,064,405
Current assets			
Inventories	14	2,589,207	2,067,549
Trade and other receivables	15	1,747,103	2,372,265
Assets held for Sale	11(b)	279	279
Cash and cash equivalents	16	17,423,870	15,050,324
		21,760,459	19,490,417
Total assets		24,817,294	22,554,822
EQUITY AND LIABILITIES			
Equity			
Stated capital	17	1,873,238	1,873,238
Retained earnings		2,697,116	1,611,648
		4,570,354	3,484,886
Non-current liabilities			
Unfunded retirement benefit obligation	13(a)	518	1,376
Deferred tax liabilities	18	507,200	446,934
		507,718	448,310
Current liabilities			
Trade and other payables	19	12,354,715	11,992,481
Income tax liabilities		3,896,366	4,093,671
Dividend payable	20 (a)	3,278,165	2,341,548
Unclaimed dividends	20 (b)	209,976	193,926
		19,739,222	18,621,626
Total liabilities		20,246,940	19,069,936
Total equity and liabilities		24,817,294	22,554,822

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

Emma Ridley
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 13 February 2018.

Michael Koest
Managing Director and CEO

Emma Ridley
Finance Director

13 February 2018

The Notes on pages 112 to 139 form an integral part of these financial statements.

Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2016		1,873,238	1,012,248	2,885,486
Profit for the year		-	12,559,459	12,559,459
Other comprehensive income		-	110,778	110,778
Total comprehensive income for the year		-	12,670,237	12,670,237
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	11,546	11,546
Dividends	20 (c)	-	(12,082,383)	(12,082,383)
Total transactions with shareholders		-	(12,070,837)	(12,070,837)
Balance at 31 December 2016		1,873,238	1,611,648	3,484,886
Balance at 1 January 2017		1,873,238	1,611,648	3,484,886
Profit for the year		-	14,586,464	14,586,464
Other comprehensive income		-	(26,458)	(26,458)
Total comprehensive income for the year		-	14,560,006	14,560,006
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	12,773	12,773
Dividends	20 (c)	-	(13,487,311)	(13,487,311)
Total transactions with shareholders		-	(13,474,538)	(13,474,538)
Balance at 31 December 2017		1,873,238	2,697,116	4,570,354

The Notes on pages 112 to 139 form an integral part of these financial statements.

Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December	
		2017	2016
Cash flows from operating activities			
Cash generated from operations	23	23,737,695	22,295,701
Interest received		1,504,465	823,168
Taxes paid		(10,121,196)	(8,380,713)
Net cash generated from operating activities		15,120,964	14,738,156
Cash flows from investing activities			
Purchases of property, plant and equipment		(225,548)	(420,167)
Proceeds from disposal of property, plant and equipment		-	21,479
Net cash used in investing activities		(225,548)	(398,688)
Cash flows from financing activities			
Dividends paid	20(a)	(12,507,041)	(10,663,217)
Unclaimed dividends paid	20 (b)	(14,829)	(4,071)
Net cash used in financing activities		(12,521,870)	(10,667,288)
Increase in cash and cash equivalents		2,373,546	3,672,180
Movement in cash and cash equivalents			
At beginning of year		15,050,324	11,378,144
Increase		2,373,546	3,672,180
At end of year	16	17,423,870	15,050,324

The Notes on pages 112 to 139 form an integral part of these financial statements.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

1 General information

Company

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

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

2 Basis of preparation & other significant accounting policies

2.1 Basis of preparation

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

They were authorised for issue by the Company's Board of Directors on 13 February 2018.

2.2 Presentation of functional currency

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

2.3 Going concern

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

Summary of significant accounting policies

2.4 Foreign currency transactions, translation and balances

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

2.5 Significant accounting judgements, estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2017 is included in the following notes:

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

2.6 Segmental reporting

"The Company operates in two geographical segments - domestic and the export sales.

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

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

2.7 Property, plant and equipment

Basis of recognition

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

Basis of measurement

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

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

Depreciation and derecognition

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

Freehold building	40 years
Leasehold building	Over the lease period
Building improvements / upgrade	10 years
Plant and machinery	14 years
Furniture and fittings & Office equipment	5 years
IT equipment & Household equipment	3 years
Vehicle and accessories	4 years
Lab equipment & Canteen equipment	10 years
IT Infrastructure	5 years

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

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

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

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

2.8 Intangible assets

Basis of recognition and measurement

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

Subsequent measurement

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

Amortisation

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

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

Computer Software	3 years

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

2.9 Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the reporting date. If not, they are classified as non-current.

2.9.1 Classification of financial assets

Non-derivative financial assets are classified on initial recognition as fair-value through profit or loss, loans and receivables, available-for-sale investments and held for maturity as follows:

(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 2.14 and 2.15).

(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 fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity.

Recognition and derecognition

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 are expensed in the statement of profit or loss.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred, or it neither transfers nor retains substantially all of the risks

Notes to the Financial Statements
(all amounts in Sri Lanka Rupees thousands)

and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

2.9.2 Financial liability

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in statement of profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

The Company's financial liabilities include trade and other payables.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

2.10 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.11 Impairment of financial assets

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.

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 profit or loss. 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 profit or loss.

(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.

2.12 Impairment of non-financial assets

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

2.13 Inventories

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

2.14 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.

Impairment testing of trade receivables is described in Note 2.11.

2.15 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.

2.16 Stated capital

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

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

2.17 Trade payables

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

2.18 Income tax

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

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax

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

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

2.19 Employee benefits

(a) Defined contribution plan

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

Employees' Provident Fund

All local employees of the Company are members of the Employee's Provident Fund to which Company Contributes 15% of such employees' basic or consolidated wage or salary.

Employees' Trust Fund

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

(b) Defined benefit plan

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

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

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

(c) Short term employee benefits

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

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

(d) Share based payments

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

2.20 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past

Notes to the Financial Statements
(all amounts in Sri Lanka Rupees thousands)

events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

2.21 Revenue recognition

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes collected on behalf of third parties and is after deducting rebates, returns and other similar discounts. Revenue is recognised when the significant risks and rewards of ownership are transferred to a third party.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For local sales, the transfer usually occurs when the product is delivered to the distributors. However, for exports, transfer occurs on loading the goods onto the relevant carrier at the port. Generally, for such products the customer has no right of return.

2.22 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 profit or loss 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 profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining 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.

2.23 Dividend distribution

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

2.24 Fair value estimation

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

2.25 New accounting standards issued but not yet effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for the financial periods beginning on or after 1 January 2018.

SLFRS 15 Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual periods beginning on or after 1 January 2018.

The Company has completed an initial assessment of the potential impact of the key changes upon adoption of SLFRS 15 on its financial statements. These key changes include, but are not limited to:

- The classification of payments to customers between revenue and operating costs (includes payments, discounts and services to indirect customers and consumers)

Anticipated impact from restatement on the Company's revenue for 2017 and 2016 is not expected to be material, and the estimated impact on revenue as a result of above change will be approximately Rs. 502 million in 2017 and Rs. 553 million in 2016.

Transition

The Company plans to adopt SLFRS 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Company will apply all of the requirements of SLFRS 15 to each comparative period presented and adjust its financial statements.

SLFRS 9 Financial Instruments

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company currently plans to apply SLFRS 9 initially on 1 January 2018.

The actual impact of adopting SLFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. But the anticipated impact from restatement on the Company's reported profit and equity for 2017 and 2016 is not expected to be material.

Transition

The Company plans to adopt SLFRS 9 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Company will apply all of the requirements of SLFRS 9 to each comparative period presented and adjust its financial statements.

SLFRS 16 Leases

SLFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance including LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply SLFRS 15 Revenue from Contracts with Customers at or before the date of initial application of SLFRS 16.

The Company has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of warehouse and factory facilities. In addition, the nature of expenses related to those leases will now change as SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The anticipated impact from restatement on the Company's operating profit and net assets for 2017 and 2016 is not expected to be material, although assets and liabilities would have been grossed up by approximately discounted amount of current leasing commitments as disclosed in note 22.

Transition

As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply SLFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

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(all amounts in Sri Lanka Rupees thousands)

3 Financial risk management

3.1 Financial risk factors

(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 are denominated in a currency that is not the entity's functional currency. Management complies with the treasury policy to manage foreign exchange risk against their functional currency. Exposure to foreign currency is limited to less than 5% of the trade receivables and payable balances.

The following significant average exchange rates were applied during the year:

	Year ended 31 December	
	2017	2016
US Dollar (USD)	152.56	149.80
Great Britain Pound (GBP)	196.64	185.10
Euro (EUR)	172.38	158.00

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result approximately in Rs. 61Mn impact on pre-tax profit.

(ii) Price risk

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

Equity price risk

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

Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge a contractual obligation. Credit risk mainly arises from trade debtors, advances and cash and cash equivalents. Group treasury guidelines are followed for managing cash and cash equivalents while short term investment decisions are taken after proper review by treasury committee ensuring compliance with group guidelines. The Company sales are on an order to order basis with guarantees equivalent to a day's sales, being obtained from all distributors. No credit limits were exceeded 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 follows:

	Year ended 31 December	
	2017	2016
Trade receivables [Note 15]	1,595,473	1,998,855
Receivables from related parties [Note 24(iii)]	32,704	60,853
Staff loans [Note 15]	178,952	333,307
Other receivables	-	58,632
Advances to farmers [Note 15]	54,392	36,289
	1,861,521	2,487,936
Cash and cash equivalents [Note 16]	17,423,870	15,050,324
	19,285,391	17,538,260

Credit quality of financial assets

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

Cash at bank and short-term bank deposits

Cash at bank	Rating	Year ended 31 December	
		2017	2016
	AAA (lka)	10,176,267	14,964,639
	AA+ (lka)	86,553	72,507
	AA (lka)	16,064	9,994
	A- (lka)	78,776	531
	AA- (lka)	7,066,007	2,442
Total cash at bank and the short-term deposits		17,423,667	15,050,113

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

(c) Liquidity risk

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

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

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

	Less than 3 months	Between 3 months and 1 year	More than 1 year
At 31 December 2017			
Trade and other payables	(8,837,153)	(432,292)	-
At 31 December 2016			
Trade and other payables	(9,353,099)	(15,845)	-

3.2 Capital management

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

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

During 2017, the Company's strategy, which was unchanged from 2016, was to be fully equity funded and have no external borrowings.

3.3 Analysis of financial instruments by measurement basis

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

As at 31 December 2016	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	2,324,801	-	-	2,324,801
Cash and cash equivalents	15,050,324	-	-	15,050,324
Total	17,375,125	-	-	17,375,125

As at 31 December 2016	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	-	9,368,944	9,368,944
Total	-	9,368,944	9,368,944

As at 31 December 2017	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	1,818,410	-	-	1,818,410
Cash and cash equivalents	17,423,870	-	-	17,423,870
Total	19,242,280	-	-	19,242,280

As at 31 December 2017	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	-	9,331,738	9,331,738
Total	-	9,331,738	9,331,738

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

4 Gross revenue

	Year ended 31 December	
	2017	2016
Local revenue	138,811,692	121,373,142
Export revenue	228,907	151,715
Gross revenue	139,040,599	121,524,857
Government levies		
Excise special provision tax	(88,881,942)	(87,424,175)
Value added tax	(18,485,990)	(2,325,814)
Tobacco tax	(19,366)	(27,496)
Total government levies	(107,387,298)	(89,777,485)
Net revenue	31,653,301	31,747,372

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.

The Value Added Tax (VAT) and Nation Building Tax (NBT) amendments were introduced through the National Budget presented by the Government of Sri Lanka in 2014 and certified on the 30 October 2015 via VAT (Amendment Act) No. 11 of 2015 and NBT (Amendment Act) No. 12 of 2015. VAT was reintroduced on cigarettes from 01 November 2016 based on Amendment Act No. 20 of 2016.

5 Employee benefit expenses

	Year ended 31 December	
	2017	2016
Executive Directors' emoluments	108,874	117,519
Non- Executive Director's remuneration	10,458	10,306
Salaries and wages	1,070,823	1,190,330
Defined contribution plans	75,676	79,391
Provision for voluntary separation scheme [(a) below]	74,825	11,445
Defined benefit obligations [Note 13]	(47,249)	(8,840)
	1,293,407	1,400,151

a) Voluntary Separation Scheme (VSS) was available to selected employees. It is an option, that if exercised by the employee, needs to be provided for by the Company.

6 Other operating income

	Year ended 31 December	
	2017	2016
Profit on disposal of property, plant and equipment	-	18,858
Sundry sales / gains	48,219	5,292
	48,219	24,150

7 Operating profit

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

	Year ended 31 December	
	2017	2016
Auditors' remuneration		
Audit fees	6,903	3,663
Audit related services	1,760	1,115
Non-audit fees	-	2,500
Legal fees	79,043	61,199
Administrative expenses	987,026	1,042,240
Donations	53,878	31,663
Technical and advisory fees	598,815	424,694
Write-offs	481	1,274
Provision for obsolete inventories	4,397	4,281
Provision for doubtful debts	22,253	4,707
Repairs and maintenance	222,389	273,492

8 Finance income

	Year ended 31 December	
	2017	2016
Interest income		
- Interest income from bank deposits	1,504,465	850,389
Finance income	1,504,465	850,389

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9 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	
	2017	2016
Current tax on profit for the year	9,923,893	8,621,154
Deferred tax [Note 18]	60,266	38,725
	9,984,159	8,659,879

	Year ended 31 December			
	%	2017	%	2016
Profit before tax		24,570,623		21,219,338
Tax calculated at tax rate of 40%	40%	9,828,249	40%	8,487,735
Tax effects of:				
Tax on expenses not deductible for tax purposes	1.85%	455,771	1.64%	348,541
Tax on expenses deductible for tax purposes	(0.68%)	(166,076)	(0.59%)	(125,889)
Tax effect on rate differentials	(0.54%)	(133,785)	(0.24%)	(50,508)
Tax charge	40.63%	9,984,159	40.81%	8,659,879

10 Earnings per share

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

	Year ended 31 December	
	2017	2016
Net profit attributable to shareholders (in thousands)	14,586,464	12,559,459
Weighted average number of ordinary shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs)	77.87	67.05
Diluted earnings per share (Rs)	77.87	67.05

11 Property, plant and equipment

	Freehold land	Freehold buildings	Capital work in progress	Building improvements / upgrade	Leasehold buildings	Machinery / equipment	Motor vehicles	Total
Cost								
At 1 January 2016	96,941	329,568	500,080	162,049	28,994	3,759,429	36,990	4,914,051
Additions to asset classes	125	9,466	(246,791)	1,971	-	235,229	-	-
Additions to WIP	-	-	420,447	-	-	-	-	420,447
Disposals	-	-	-	-	-	-	(26,213)	(26,213)
Transfers	(230)	(608)	-	-	-	-	-	(838)
Write-offs	(900)	(2,449)	-	-	(1,083)	(41,520)	(1,483)	(47,435)
At 31 December 2016	95,936	335,977	673,736	164,020	27,911	3,953,138	9,294	5,260,012
Accumulated depreciation								
At 1 January 2016	-	211,995	-	67,870	28,370	2,509,728	33,291	2,851,254
Charge for the year	-	5,677	-	14,215	395	189,662	148	210,097
Disposals	-	-	-	-	-	-	(23,591)	(23,591)
Adjustments	-	(559)	-	-	-	-	-	(559)
Write-offs	-	(2,075)	-	-	(1,083)	(41,520)	(1,483)	(46,161)
At 31 December 2016	-	215,038	-	82,085	27,682	2,657,870	8,365	2,991,040
Closing net book amount	95,936	120,939	673,736	81,935	229	1,295,268	929	2,268,972
Cost								
At 1 January 2017	95,936	335,977	673,736	164,020	27,911	3,953,138	9,294	5,260,012
Additions to asset classes	901	10,898	(475,993)	19,950	-	444,244	-	-
Addition to WIP	-	-	225,547	-	-	-	-	225,547
Disposals	-	-	-	-	-	-	-	-
Transfers to assets held for sale	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	(80,233)	-	(80,233)
At 31 December 2017	96,837	346,875	423,290	183,970	27,911	4,317,149	9,294	5,405,326
Accumulated depreciation								
At 1 January 2017	-	215,038	-	82,085	27,682	2,657,870	8,365	2,991,040
Charge for the year	-	5,456	-	13,971	65	217,020	-	236,512
Disposals	-	-	-	-	-	-	-	-
Transfer to assets held for sale	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	(80,233)	-	(80,233)
At 31 December 2017	-	220,494	-	96,056	27,747	2,794,657	8,365	3,147,319
Closing net book amount	96,837	126,381	423,290	87,914	164	1,522,492	929	2,258,007

(a) Property, plant and equipment includes fully depreciated assets which are in use, the cost of which as at the end of the reporting date amounted to Rs. 1,831,036,846 (2016 - 1,935,468,687)

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11 (a) Company property

The freehold land and buildings were valued by professional valuer Sunil Fernando & Associates (Pvt) Ltd. The valuations carried out on 1 July 2017 have been considered to derive the market values of the respective properties as at 31 December 2017.

The Company follows the cost model as stated in its accounting policy to measure property, plant and equipment. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs. 5,011,150,000.

	Property		Extent of Land		Revalued Amount
Asset Type	Location	A	R	P	Rs. '000
Land and Buildings	Colombo Head Office Factory	7	2	22.50	4,050,000
Land and Buildings	Kandy Industrial premises	3	3	26.05	298,750
Land and Buildings	Kandy commercial premises	2	1	18.75	166,450
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50	20,550
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50	51,000
Land and Buildings	Nildanhinna depot, stores and quarters	2	1	4.00	20,000
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00	11,000
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25	39,700
Land and Buildings	Ambale depot, stores and quarters	2	0	9.66	18,050
Land and Buildings	Wendaruwa quarters	0	2	0.00	3,000
Land and Buildings	Galewela depot, stores and quarters	5	3	39.87	88,100
Land and Buildings	Hunnasgiriya quarters	0	2	0.00	1,400
Land and Buildings	Walapane	2	0	3.00	3,450
Land and Buildings	Nuwara Eliya	0	1	31.30	101,600
Land	Kabitigollawa	3	0	0.00	7,500
Land	Kalagedihena	1	1	19.30	37,600
Land	Naula	0	0	21.00	10,500
Land	Nuwara Eliya Yalta	0	1	23.50	82,500

11(b) Assets held for sale

The land and building at Kabitigollawa, land at Walapane and land at Kalagedihena are currently held for sale.

12 Intangible assets

Intangible assets comprise computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 2.8.

	Year ended 31 December	
	2017	2016
Cost		
At 1 January	112,565	112,565
Additions	-	-
Write-offs	(49,140)	-
At 31 December	63,425	112,565
Amortisation		
At 1 January	111,679	103,321
Amortisation during the year	405	8,358
Write-offs	(48,659)	-
At 31 December	63,425	111,679
Net book value	-	886

13 Employment benefits

(a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs 0.5 million (2016 - Rs 1.4 million) is not funded and has been provided for in the books of the Company.

	Year ended 31 December	
	2017	2016
Unfunded obligations	518	1,376

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 271 (2016 - 273) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy.

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

	Year ended 31 December	
	2017	2016
Net defined benefit liability	466,175	526,181
Net defined benefit asset	(1,139,237)	(1,178,451)
Total employee benefits plan asset	(673,062)	(652,270)

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The movement in the defined benefit (asset) / liability over the year is as follows:

	Defined benefit obligation	Fair value of plan assets	Net defined benefit (asset) / liability
Included in profit or loss:			
At 1 January 2016	620,781	(1,153,434)	(532,653)
Current service cost	44,958		44,958
Interest expense / (income)	57,034	(110,832)	(53,798)
	101,992	(110,832)	(8,840)
Included in OCI:			
Remeasurements :			
- Return on plan assets, excluding amounts included in interest expense	-	(26,359)	(26,359)
- Gain from change in financial assumptions	(67,560)	-	(67,560)
- Experience gains	(16,859)	-	(16,859)
	(84,419)	(26,359)	(110,778)
Other:			
Contributions :			
Payments from plan:	(112,173)	112,173	-
At 31 December 2016	526,181	(1,178,452)	(652,271)

	Defined benefit obligation	Fair value of plan assets	Net defined benefit (asset) / liability
Included in profit or loss:			
At 1 January 2017	526,181	(1,178,452)	(652,271)
Current service cost	32,327		32,327
Interest expense / (income)	52,100	(131,676)	(79,576)
	84,427	(131,676)	(47,249)
Included in OCI:			
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(27,382)	(27,382)
- Loss from change in financial assumptions	45,403	-	45,403
- Experience loss	8,437	-	8,437
	53,840	(27,382)	26,458
Other:			
Contributions:			
Payments from plans:	(198,273)	198,273	-
At 31 December 2017	466,175	(1,139,237)	(673,062)

The principal assumptions the Company used are as follows:

	Year ended 31 December	
	2017	2016
Discount rate per annum	9.90%	12.20%
Annual salary increment rate	10.25%	11.00%

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

	Impact on defined benefit obligation		
	2017		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(30,566)	35,345
Annual salary increment rate	1.00%	34,902	(30,750)

	Impact on defined benefit obligation		
	2016		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(26,358)	29,872
Annual salary increment rate	1.00%	29,946	(26,867)

The above sensitivity analysis are 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.

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14 Inventories

	Year ended 31 December	
	2017	2016
Raw materials	2,144,702	1,441,727
Work-in-progress	46,887	32,593
Finished goods	198,276	397,337
Consumables	262,792	254,945
Provision for obsolete and slow moving inventories	(63,450)	(59,053)
	2,589,207	2,067,549

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.

15 Trade and other receivables

	Year ended 31 December	
	2017	2016
Current		
Trade receivables	1,595,473	1,998,855
Receivables from related parties [Note 24 (iii)]	32,704	60,853
Advances to farmers	54,392	36,289
Staff loans	53,186	191,030
Other receivables	54,459	106,097
Less: provision for impairment of other receivables	(43,111)	(20,859)
	1,747,103	2,372,265
Non-current		
Receivables (Staff loans)	125,766	142,277
Total trade and other receivables	1,872,869	2,514,542

(i) Trade receivables wholly consist of amounts receivable from distributors. No impairment indicators are noted as all receivables are less than 6 months.

(ii) Provision for doubtful debts has been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.

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

	Year ended 31 December 2017	2016
Trade receivables	1,595,473	1,998,855
Receivables from related parties	32,704	60,853
Advances to farmers	54,392	36,289
Staff loans	178,952	333,307
Other receivables	54,459	106,097
Less: provision for impairment	(43,111)	(20,859)
	1,872,869	2,514,542

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

	Year ended 31 December 2017	2016
At 1 January	20,859	16,151
Provision for the period	28,096	11,116
Write-offs during the period	(4,526)	(5,833)
Reversals during the period	(1,318)	(575)
At 31 December	43,111	20,859

16 Cash and cash equivalents

	Year ended 31 December 2017	2016
Cash at bank and in hand	8,381,222	11,412,280
Short term investments	9,042,648	3,638,044
Cash and cash equivalents (excluding bank overdrafts)	17,423,870	15,050,324

17 Stated capital

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

All issued shares are fully paid.

Notes to the Financial Statements
(all amounts in Sri Lanka Rupees thousands)

18 Deferred 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:

	Year ended 31 December	
	2017	2016
At beginning of the year	446,934	408,209
Charge for the year [Note 9]	60,266	38,725
At end of the year	507,200	446,934

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

	Accelerated depreciation	Defined benefit obligation	Total
Balance as at 1 January 2016	(408,759)	550	(408,209)
Charged to the statement of profit or loss	(38,725)	-	(38,725)
At 31 December 2016	(447,484)	550	(446,934)
Balance as at 1 January 2017	(447,484)	550	(446,934)
Charged to the statement of profit or loss	(59,923)	(343)	(60,266)
At 31 December 2017	(507,407)	207	(507,200)

19 Trade and other payables

	Year ended 31 December	
	2017	2016
Trade payables	480,417	423,993
Payable to related parties [Note 24 (iii)]	942,801	344,546
Accrued expenses	3,022,981	2,623,537
Other payables incl. government levies	7,908,516	8,600,405
	12,354,715	11,992,481

20 Dividends payable

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

	Year ended 31 December	
	2017	2016
At 1 January	2,341,548	936,618
Dividends declared [Note (c)]	13,487,311	12,082,383
Dividends paid	(12,507,041)	(10,663,217)
Payments / transfers to unclaimed dividend [Note (b)]	(43,653)	(14,236)
At 31 December	3,278,165	2,341,548

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

	Year ended 31 December	
	2017	2016
At 1 January	193,926	195,307
Transfers	43,652	14,236
Payments	(14,829)	(4,071)
Write back	(12,773)	(11,546)
At 31 December	209,976	193,926

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

	2017		2016	
	per share	Rs.	per share	Rs.
Final dividend - 2016 / 2015	6.00	1,123,943	3.70	693,098
First interim - 2017 / 2016	15.00	2,809,856	15.60	2,922,251
Second interim - 2017 / 2016	16.00	2,997,180	16.70	3,128,307
Third interim - 2017 / 2016	17.50	3,278,166	16.00	2,997,180
Fourth interim - 2017 / 2016	17.50	3,278,166	12.50	2,341,547
	72.00	13,487,311	64.50	12,082,383

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

21 Contingent liabilities

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

(a) Rs. 500 Mn (2016 - Rs. 500 Mn) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing Licence) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 (as amended).

(b) Shipping Guarantees have been issued amounting to Rs. 34.2 Mn (2016 - Rs. 152.2 Mn), for goods cleared before the arrival of original bank documents.

(c) Outstanding litigation

Considering the opinion of the Company's lawyers, the Directors have reasonable assurance that any pending litigation will not have a material impact on the financial statements.

22 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 of 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:

	Year ended 31 December	
	2017	2016
Less than 1 year	37,665	6,872
More than 1 year and less than 5 years	154,411	201,212
More than 5 years	309	43
Total	192,385	208,127

Expenses relating to operating leases during the year

	Year ended 31 December	
	2017	2016
Minimum lease payments	146,055	130,956
Contingent rentals	-	-
Sub - leases	-	-
	146,055	130,956

23 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2017	2016
Profit before tax	24,570,623	21,219,338
Adjustments for:		
Depreciation [Note 11]	236,512	210,097
Amortisation of intangible assets [Note 12]	405	8,358
Write offs	481	1,274
Interest received [Note 8]	(1,504,465)	(850,389)
Net interest on retirement benefit obligations [Note 13]	(47,249)	(8,840)
Provision for obsolete inventories and doubtful debts [Notes 14 and 15]	26,650	8,988
Gain on disposal of property, plant and equipment [Note 6]	-	(18,858)
Changes in working capital :		
- inventories	(526,056)	1,464,688
- receivables	619,422	(1,356,488)
- trade and other payables	361,372	1,617,533
Cash generated from operations	23,737,695	22,295,701

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

24 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.

Non-recurrent related party transactions

Any non-recurrent related party transactions of which the aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2016 audited financial statements requires additional disclosures in the 2017 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with related party that exceeds the specified thresholds.

Recurrent related party transactions

Any recurrent related party transactions of which the aggregate value exceeds 10% of revenue of the Company as per 31 December 2016 audited financial Statements requires additional disclosures in the 2017 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with a related party that exceeds the specified thresholds.

The following transactions were carried out with related parties:

(i) Sale of goods / services

	Year ended 31 December	
	2017	2016
British American Shared Services (GSD) Limited	35,529	-
BAT Sales and MKT Singapore	2,160	-
BAT Marketing (Singapore) Private Limited	174,400	75,103
PT Bentoel Internasional Investama Tbk.	-	511
PT Bentoel Prima	-	1,331
BAT Korea Ltd	-	401
British American Tobacco (Malaysia) Berhad	3,143	2,404
BAT (Holdings) Limited	4,747	988
BAT International	6,136	-
BAT AsPac Service Centre Sdn Bhd	2,342	-
BAT Investments LTD	19,233	-
British American Tobacco (GLP) Limited	936	-
	248,626	80,738

(ii) Purchase of goods / services

	Year ended 31 December	
	2017	2016
BAT (Hamburg International) GmBH	-	4,322
BAT AsPac Service Centre Sdn Bhd	144,314	179,952
BAT Investments Limited	598,815	424,694
Benson & Hedges (Overseas) Limited	6,033	8,995
BAT Asia Pacific Region Limited	3,534	3,897
BAT Japan Limited	-	2,086
BAT Korea Limited	-	814
BAT (Holdings) Limited	166,049	103,812
British American Shared Services (GSD) Limited	515,962	439,368
Tobacco Importers & Manufacturers Sdn Berhad	964	27,832
BAT SAA Service (Private) Limited	31,400	27,771
BAT Singapore Private Limited	133,671	165,137
BAT Australia Ltd	6,325	1,057
PT Bentoel Internasional Investama Tbk.	-	2,445
BAT Australia Pty Ltd	-	80,283
BAT Germany GMBH	186	984
BAT (GLP) Limited	398,605	311,074
BAT Korea Manufacturing Limited	581	-
	2,006,439	1,784,523

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

	Year ended 31 December	
	2017	2016
Receivable from related parties [Note 15]		
BAT (Holdings) Limited	4,071	15,033
BAT International Ltd	6,519	-
BAT Investments LTD	3,779	-
BAT Marketing (Singapore) Private Limited	11,054	-
BAT Sales & Mkt Singapore Pte Ltd	2,160	-
British American Shared Services (GSD) Limited	-	38,850
PT Bentoel Prima	2	628
Pakistan Tobacco Company Limited	5,119	6,342
	32,704	60,853

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

	Year ended 31 December	
	2017	2016
Payable to related parties [Note 19]		
BAT Investments Limited	342,698	-
BAT ASPAC Service Centre Sdn Bhd	154,389	97,851
BAT (Hamburg International) GmBH	-	-
BAT (Holdings) Limited	50,011	155,010
Tobacco Importers & Manufacturers Sdn Berhad	35,501	35,674
BAT Singapore Private Limited	56,289	22,258
BAT Marketing (Singapore) Private Limited	-	4,031
British American Shared Services (GSD) Limited	281,190	1,914
BAT Souza Cruz S.A	2,685	2,620
Benson & Hedges (Overseas) Limited	4,312	12,509
BAT Asia Pacific Region Limited	2,131	3,970
BAT Japan Limited	-	3,640
BAT (Germany) GmbH	191	163
BAT Australia Limited	7,687	1,036
BAT(GLP) Ltd	-	1,425
PT Bentoel Internasional Investama	-	2,445
Pakistan Tobacco Company	5,136	-
BAT Korea Manufacturing Limited	581	-
	942,801	344,546

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

(iv) Key management compensation

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

	Year ended 31 December	
	2017	2016
Salaries and other short-term employee benefits	213,848	221,469
Share based payments	13,302	17,048

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

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

As at 31 December 2017, the fair value of the phantom shares granted was Rs.15 million.

25 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:

Dividends:

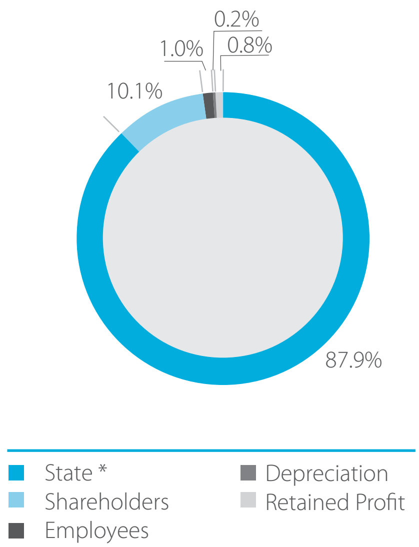
The directors recommend a final dividend of Rs.11.80 per share for 2017. The final dividend is subject to the approval of the shareholders at the Annual General Meeting to be held on 25 April 2018.

Once approved by the shareholders, the final dividend will be payable on 08 May 2018

Statement of Value Added

(all amounts in Sri Lanka Rupees thousands)

	Year ended 31 December	
	2017	2016
Gross revenue	139,040,599	121,524,857
Supplied materials & services	(7,105,038)	(9,783,967)
Net interest income	1,504,465	850,389
Other operating income	48,219	24,150
	133,488,245	112,615,429
State *	117,371,457	98,437,364
Shareholders	13,487,311	12,082,383
Employees	1,293,407	1,400,151
Depreciation	236,917	218,455
Retained Profit	1,099,153	477,076
	133,488,245	112,615,429



Shareholder Information

Stated Capital - Rs.	1,873,237,510
Number of shares representing the Entity's stated capital	187,323,751
No of Shareholders as at 31 December 2017	3,389
No of Shareholders as at 31 December 2016	3,565

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	2,384	497,894	0.27	33	9,372	0.01	2,417	507,266	0.27
1001-10,000	816	2,372,441	1.27	41	165,642	0.09	857	2,538,083	1.36
10,001-100,000	63	1,587,028	0.85	27	940,978	0.50	90	2,528,006	1.35
100,001-1,000,000	2	278,009	0.15	18	4,008,603	2.14	20	4,286,612	2.29
Over 1,000,000	-	-	-	5	177,463,784	94.74	5	177,463,784	94.74
Total	3,265	4,735,372	2.53	124	182,588,379	97.47	3,389	187,323,751	100.00

	No of Shares as at 31 December	
	2017	2016
Parent Company		
British American Tobacco Holdings (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors shareholding (including spouses and children)		
S. C. Ratnayake (Chairman)	644	644
Michael Koest (Managing Director and CEO)	-	-
	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 & children)	644	644
Public Holding	29,732,176	29,732,176
	187,323,751	187,323,751
Public shareholding		
Number of shareholders	3,387	3,563
As a % of issued number of shares	15.87	15.87
Market capitalisation of public holding	29,866	23,979

Shareholder Information

	No of Shares	%	No of Shares	%
Individuals	5,183,437	2.77	3,216	94.90
Institutions	182,140,314	97.23	173	5.10
	187,323,751	100.00	3,389	100.00

CTC share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

Year	2017	2016
No of share transactions for the year	1,868	2,807
No of shares traded	1,411,976	2,389,225
Price Movements Rs.		
Highest	1,030.00	1,140.00
Lowest	800.00	797.00
Closing Price	1,004.50	806.50
Market Capitalisation (Rs. Mn)	188,167	151,077
Closing Price * Share Capital		

20 Largest shareholders

	Name	As at 31 December			
		2017		2016	
		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.	1,987,794	1.06	1,917,010	1.02
4	HSBC INTL NOM LTD - SSBT-BMO Investments 11 (Ireland)	1,206,504	0.64	1,195,019	0.64
5	HSBC INTL NOM LTD-State Street London	1,092,645	0.58	1,063,268	0.57
6	RBC Investor Services Bank-COELI SICAV	529,098	0.28	374,476	0.20
7	HSBC INTL NOM LTD-BBH-Matthews Emerging Asia Fund	359,928	0.19	-	0.00
8	HSBC INTL NOM LTD-JPMCB-Long Term Economic Investment Fund	339,568	0.18	339,568	0.18
9	Mrs Jasbinderjit Kaur Piara Singh	312,063	0.17	312,063	0.17
10	Northern Trust Company S / A - Coupland Cardiff Funds PLC	296,285	0.16	416,285	0.22
11	Miss Neesha Harnam	225,821	0.12	230,821	0.12
12	Harnam Holdings SDN BHD	210,102	0.11	230,043	0.12
13	HSBC INTL NOM LTD-JPMCB-Coronation Global Frontiers Master Fund	203,352	0.11	-	0.00
14	HSBC INTL NOM LTD-SSBT Frank Russel Trust Company	200,124	0.11	200,124	0.11
15	HSBC INTL NOM Ltd - SSBT-Deutsche Bank	195,600	0.10	195,600	0.10
16	PICTET and CIE (Europe) SA S / A Lloyd George Indian Ocean Master Fund	187,500	0.10	-	0.00
17	HSBC INTL NOM Ltd - SSBT-BMO-LGM Frontier Markets Equity Fund	160,730	0.09	135,730	0.07
18	HSBC INTL NOM LTD-JPMCB-New Emerging Markets	150,615	0.08	150,615	0.08
19	Mellon Bank N.A-Eaton Vance Trust Co.Collective Inv.	148,901	0.08	-	0.00
20	Bank of Ceylon No 1 Account	143,178	0.08	194,178	0.10
	Sub Total	181,126,649	96.69	180,131,641	96.16
	Others	6,197,102	3.31	7,192,110	3.84
	Total Shares	187,323,751	100.00	187,323,751	100.00

Notes

Notice of Meeting

NOTICE IS HEREBY given that the Eighty Seventh 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, 25 April 2018 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 2017 and the Report of the Auditors thereon.

(ii) To declare a Final Dividend

(iii) To re-elect the following Directors.

- To re-elect Mr. Syed Javed Iqbal who comes up for retirement by rotation
- To re-elect Mr. Kenneth George Allen who comes up for retirement by rotation
- To re-elect Mr. Anil Tittawella and Mr. Yudhishtran Kanagasabai who were appointed since the last Annual General Meeting, who come up for re-election under the Company's Articles of Association

(iv) To authorise the Directors to determine and make donations.

(v) To re-appoint Messrs KPMG Chartered Accountants as Company's Auditors and to authorise Directors to determine their remuneration.

By Order of the Board

Ranjan Seneviratne
Company Secretary

13 February 2018

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.

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
Michael Koest	whom failing
Emma Ridley	whom failing
Anil Tittawella	whom failing
Yudhishtran Kanagasabai	whom failing
Javed Iqbal	whom failing
Kenneth Allen	whom failing

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, 25th April 2018 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 2017		
(ii)	To declare a Final Dividend		
(iii)	To re-elect Kenneth George Allen who comes up for retirement by rotation.		
(iv)	To re-elect Javed Iqbal who comes up for retirement by rotation		
(v)	To re-elect Yudhishtran Kanagasabai who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association		
(vi)	To re-elect Anil Tittawella who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(vii)	To authorise the Directors to determine and make donations		
(viii)	To Appoint Messrs KPMG as Company's Auditors and to authorise Directors to determine their remuneration		

....

Signature

Signed this ……………………… day of ……………………….. Two Thousand and Eighteen.

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 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 Form of Proxy is signed by an Attorney, the relative 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, not less than 48 hours before the time for holding the meeting.

7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Environmental Policy Statement

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 organisation that good environmental practice is good business practice and are therefore committed to:

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

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

Agriculture

We are committed to:

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

Operations and Trade

We are committed to:

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Sustainable Tobacco Programme (STP) Policy

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Biodiversity Statement

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

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

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

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

- Environmental, Health 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.

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

CEYLON TOBACCO COMPANY
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Health & Safety Policy Statement

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 organisation 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.

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

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 KPMG Chartered Accountants

BANKERS

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

HOLDING COMPANY

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

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Ceylon Tobacco Company

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