

# THE CORE OF EXCELLENCE



# ABOUT THE REPORT

Ceylon Tobacco Company PLC formulates its strategy and manages its business in an integrated manner, taking full cognisance of the requirements of its diverse stakeholders and capital resources. In complementing our integrated thinking, we adopt a similar approach towards corporate reporting and through this Annual Report strive to present a balanced and cohesive assessment of the Company's strategy, performance and outlook in relation to our economic, social and environmental goals. In preparing this Report, we have adopted the Integrated Reporting Framework proposed by the International Integrated Reporting Council (IIRC).

## SCOPE AND BOUNDARY

This Report covers CTC's operations for the period from 01 January to 31 December 2015. Financial and non-financial information pertaining to material developments and issues that shaped the Company's performance during the reporting period are discussed comprehensively. Material aspects included in the Report were selected through a systematic and comprehensive process which involved robust stakeholder engagement at all levels, as elaborated on page 10. We have adopted the reporting criteria prescribed by the Global Reporting Initiative (GRI) G4 Framework for Sustainability Reporting and the material aspects included in this Report are a combination of those prescribed by GRI and those specific to our

industry, value creation model and strategy. We have also clearly identified how our material aspects correspond to the disclosures recommending by GRI, as detailed in page 149 of this Report. The Report has been prepared in accordance with GRI G4-Core criteria.

## REPORTING PRINCIPLES

This integrated report conforms to the requirements of several local and international mandatory and voluntary frameworks including the Sri Lanka Financial Reporting Standards, Integrated Reporting Framework published by the IIRC, 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 and the GRI G4 Guidelines.

## THIRD PARTY ASSURANCE AND VERIFICATION

We believe that third party assurance is vital in establishing credibility and transparency of our Report. We have engaged Messrs. PricewaterhouseCoopers, Chartered Accountants to provide assurance on the financial reports and the Director's Statement of Internal Controls.

We seek to continuously improve the quality and readability of our Report and welcome your feedback, suggestions and comments on our reporting. Our contact details are as follows;

### Upul Abeywardane

Assistant Company Secretary  
Ceylon Tobacco Company PLC  
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Telephone: +94 112496200, 2439651-4



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# CONTENTS

About Us **2** Financial Highlights **3** Social Highlights **4** Environmental Highlights **5** Our Commitment to Excellence **6**  
Our Value Creation Model **7** Stakeholder Engagement **8** Determining Materiality **10** Chairman's Message **12** MD and  
Chief Executive Officer's Statement **16** The Board of Directors **20** The Executive Committee **24** Corporate Governance  
**26** Assessment of Going Concern **40** Statement of Internal Controls **41** Report of the Directors **43** Statement of Directors'  
Responsibilities **46** Report of the Audit Committee **47** Board Compensation and Remuneration Committee Report **49**  
Managing Risk **50** Industry insights and contextual trends **54** Our Vision and Strategy **58** Value Creation Report **61**  
Finance Director's Review (Financial Capital) **62** Social and Relationship Capital **66** Human Capital **77** Natural Capital **94**

**Financial Information** Financial Calendar **100** Independent Auditor's Report **101** Statement of Comprehensive Income **102**  
Statement of Financial Position **103** Statement of Changes in Equity **104** Statement of Cash Flows **105** Notes to the Financial  
Statements **106** Statement of Value Added **135**

**Supplementary Information** Shareholder Information **136** Notice of Meeting **139** Form of Proxy **141**

**Appendices** GRI Content Index Tool **143** CTC's Material Aspects **149** Environmental Policy **150** SRTP Policy **151** Biodiversity  
Statement **152** Health and Safety Policy **153**

# THE CORE OF EXCELLENCE

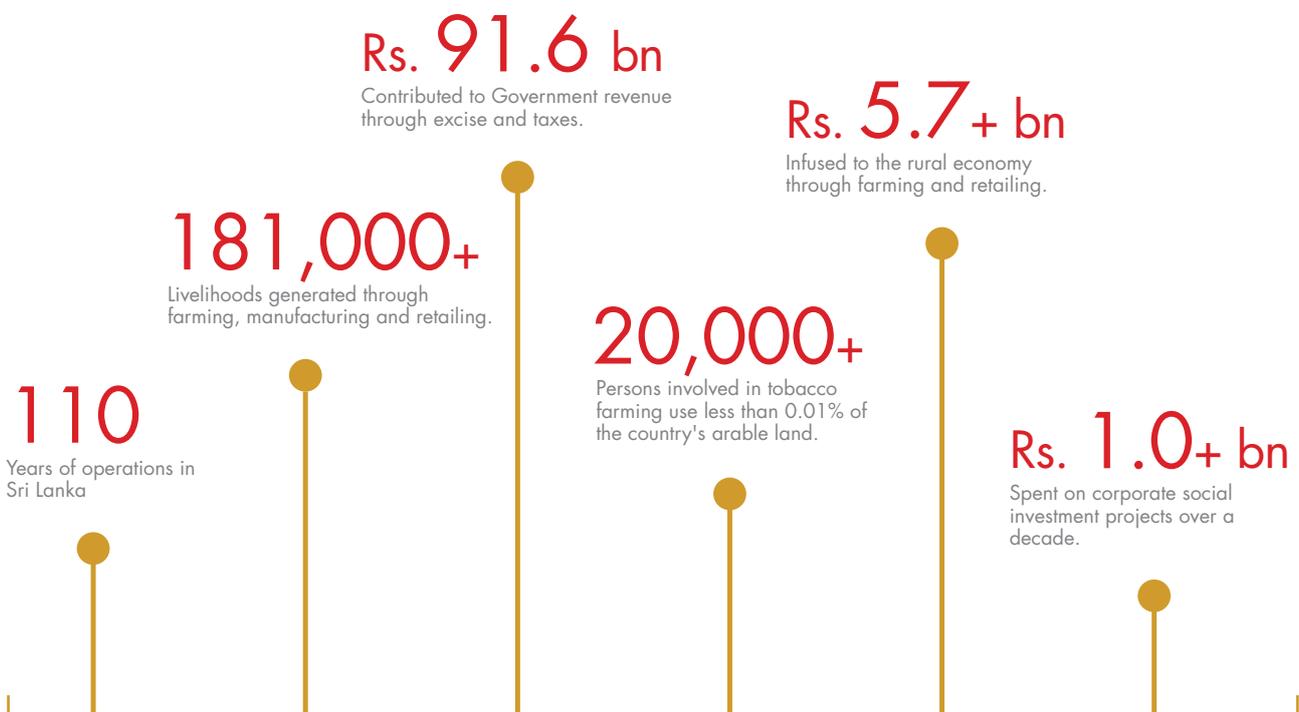
Ingrained in our core is a consciousness that drives innovation, growth and responsibility. This cohesive consciousness strives for excellence across every aspect of our operations, always pursuing for outcomes that supersede the expected.

This past year has seen excellence, born of this core, in every measure. A year in which our organisation has evolved, growing from strength to strength to record positive advancement in every sphere we have been involved in. A year which we will take as a foundation on which we will build future successes upon.

# ABOUT US

Ceylon Tobacco Company PLC (CTC) is one of Sri Lanka's most economically impactful and respected corporates. As the country's largest individual tax contributor, we contributed over 7% of the state's total tax revenue in 2015, amounting to 88% of the value we generated. We are the 2nd most valuable listed company in Sri Lanka, with a market capitalisation of Rs. 186 billion as at 31 December 2015 and as an employer of choice, successfully developed a pool of 264 global professionals. Key brands in our portfolio include John Player Gold Leaf (JPGL), our most valuable brand while Dunhill

SWITCH heads our premium segment. As the only legal manufacturer of cigarettes in the country we understand that the industry we operate in is a controversial one, which makes it all the more important that we act in a responsible manner. We are proud to have the distinction of being one of the few companies in the British American Tobacco Group to operate a fully integrated 'crop to consumer' supply chain which infuses value, creates employment and generates livelihoods to the nation at large.

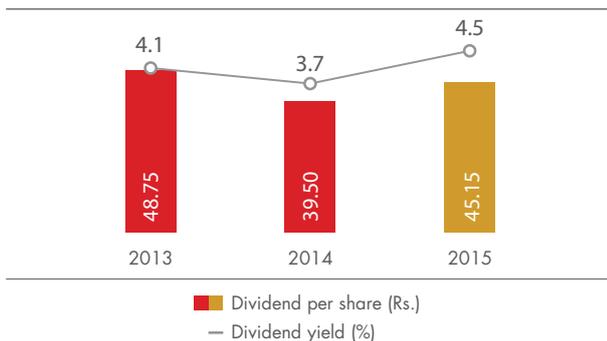


## NOTHING SHORT OF ASTONISHING...

# FINANCIAL HIGHLIGHTS

	2015 Rs. million	2014 Rs. million
Gross Turnover (including VAT)	106,491	87,900
Government Levies	80,391	66,161
Net Revenue	26,099	21,739
Profit Before Tax	18,078	14,587
Profit After Tax	10,634	8,619
Net Assets	2,885	3,898
Interim Dividends	7,765	7,399
Proposed Final Dividend (subject to approval at the Annual General Meeting)	693	-
Total Value Added	100,102	82,125
Capital Investment	563	311
Market Capitalisation	185,919	198,582
Value Added per Employee	379	308
Number of Permanent Employees	264	267
Dividend Payout Ratio	79.5%	85.9%
<b>Per Share (Rs.)</b>		
Market Value	992.50	1,060.10
Net Assets	15.40	20.81
Earnings	56.77	46.01
Dividends (Interim and Proposed Final Dividend)	45.15	39.50

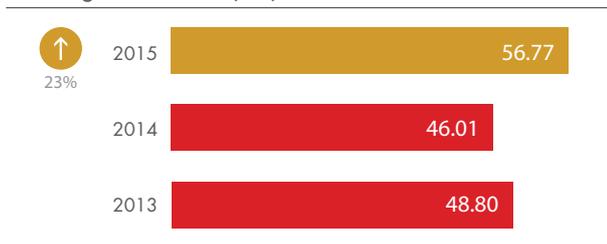
## Dividend Per Share



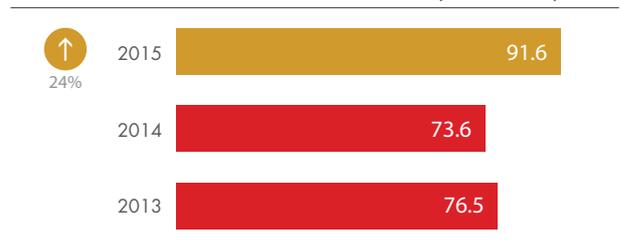
**2nd Most  
Valuable**

Listed Company Based on  
Market Capitalisation  
(31 December 2015).

## Earnings Per Share (Rs.)

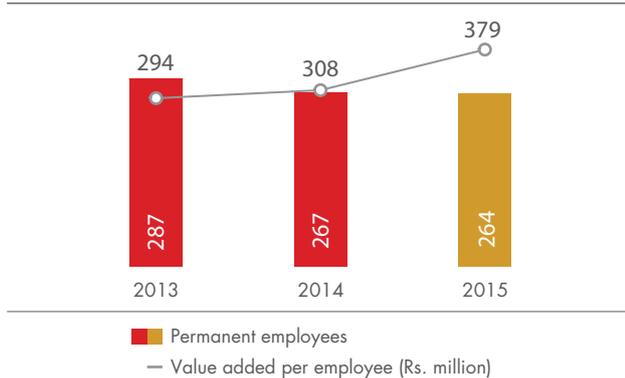


## Contribution to Government Revenue (Rs. billion)



# SOCIAL HIGHLIGHTS

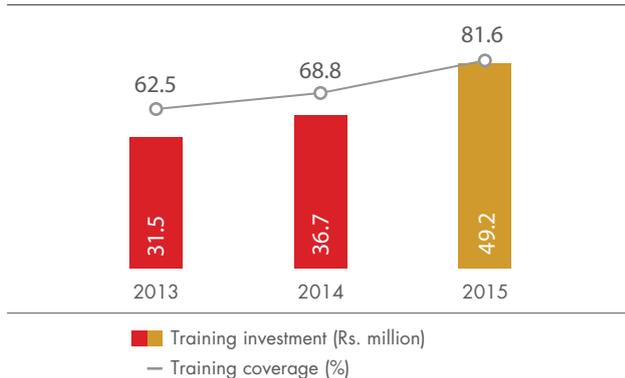
## Permanent Employees



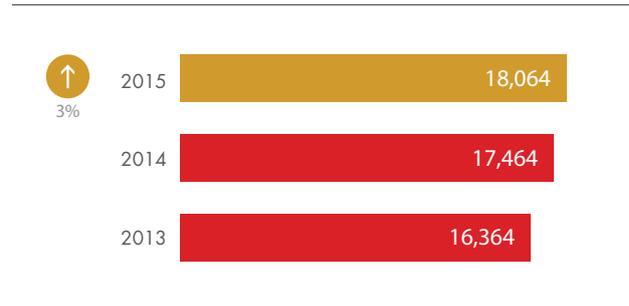
Winner of  
Best Corporate  
Citizen Award

for Employee Relations for  
Three Consecutive Years.

## Training & Development



## Beneficiary Families of SADP



### » STAFF TURNOVER RATE

7.2%

### » INVESTMENT IN EMPLOYEE TRAINING

Rs. 49.2mn

### » SADP BENEFICIARIES

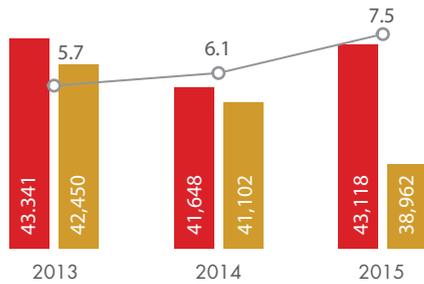
69,676

### » JOBS CREATED ACROSS VALUE CHAIN

46,000+

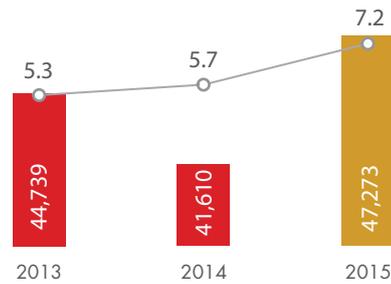
# ENVIRONMENTAL HIGHLIGHTS

## Total Energy Consumption



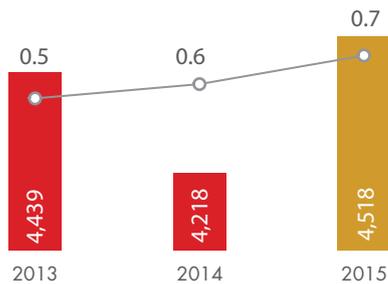
■ Direct consumption (giga joules) ■ Indirect consumption (giga joules)  
○ Energy intensity (giga joules per million cigarette equivalent)

## Water Consumption



■ Water consumption (cubic metres)  
— Water intensity (cubic metres per million cigarette equivalent)

## Green House Gas (GHG) Emissions



■ GHG emissions (tonnes of carbon dioxide)  
— Emission intensity (tonnes of carbon dioxide per million cigarette equivalent)

## Waste Recycling (%)



### » BARN AUTOMATION RATE

65%

### » RENEWABLE RESOURCE USAGE IN TOBACCO CURING

100%

### » REDUCTION IN ELECTRICITY CONSUMPTION

5%

### » REDUCTION IN WASTE SENT TO LANDFILL

56%

Note: The Company extended its scope of reporting coverage in 2015 to include more sites and processes. Therefore more data has been captured in 2015 as compared to previous years. Furthermore CTC's performance at the Green Leaf Threshing Plant was impacted by the loss of tobacco leaf volumes due to adverse weather conditions, which in turn has impacted the overall resource intensity figures.

# OUR COMMITMENT TO EXCELLENCE



## Asia Responsible Entrepreneurship Award 2015

SADP recognised as one of the best in Asia Pacific Region in the 'Social Empowerment Category'



## LMD's Most Respected Corporate Entities of 2015

CTC listed amongst Top 10 on this list for the 2nd consecutive year



## BT Top 25 Award 2015

Placed 4th on 'Business Today Top 25'

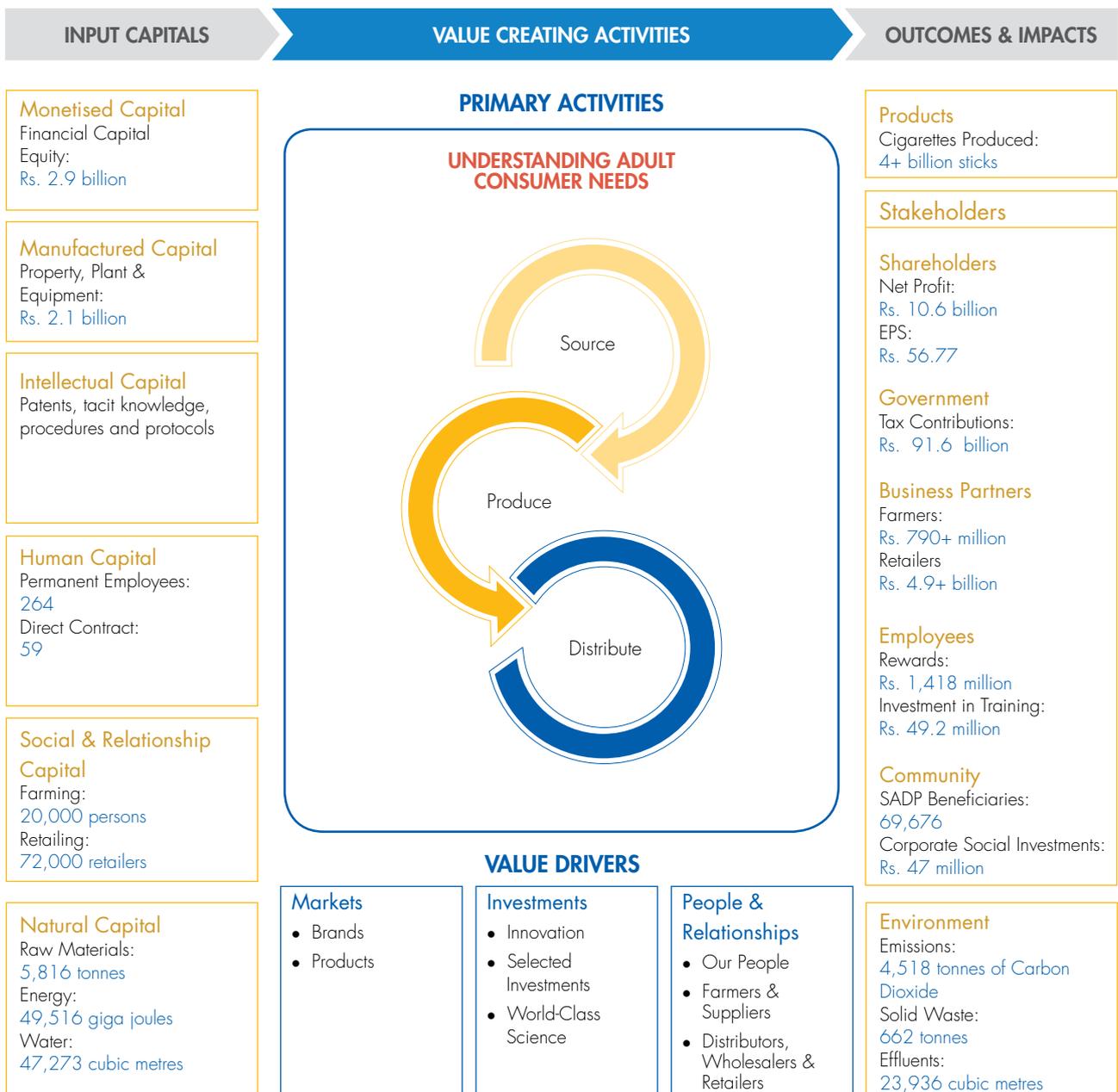
## Sri Lanka National Energy Efficiency Awards 2015

Won a merit award in the 'Large Scale Manufacturing' category

## Best Corporate Citizens Award 2015

Won category award for 'Employee Relations' for 3rd consecutive year

# OUR VALUE CREATION MODEL



- Our Guiding Principles**
- Freedom Through Responsibility
  - Strength From Diversity
  - Open Minded
  - Enterprising Spirit

# STAKEHOLDER ENGAGEMENT

Engaging with our stakeholders on a continuous and systematic basis enables us to identify what matters to them the most. This engagement forms the foundation for identifying material aspects which are a vital input in our strategy formulation, planning, operations and sustainability

reporting. In addition to effectively responding to the concerns of our stakeholders, our robust engagement mechanisms also provides us an opportunity to obtain feedback on our policies, procedures and operations.

Stakeholder Group	Method and Frequency of Engagement	Key Topics and Concerns
<p><b>Shareholders</b></p> <p>The Company's principal shareholder is British American Tobacco Holdings (Sri Lanka) BV which holds a share of 84.13%. The remainder is held by institutional investors and approximately 4000 retail investors.</p>	<ul style="list-style-type: none"> <li>★ Annual General Meeting and publication of Annual Report (annually)</li> <li>★ Regular performance updates (quarterly)</li> <li>★ Announcements to the Colombo Stock Exchange (continuous basis)</li> <li>★ Site and factory visits (upon request)</li> <li>★ Corporate website (updated continuously)</li> </ul>	<ul style="list-style-type: none"> <li>★ Sustainable growth in financial, social and environmental performance</li> <li>★ Returns commensurate with the risk undertaken</li> <li>★ Corporate governance and risk management frameworks</li> <li>★ Transparency and credibility of disclosures</li> <li>★ Corporate reputation</li> </ul>
<p><b>Customers</b></p> <p>Our Customers consist of end-consumers as well as retailers and distributors who deliver our products to the end-consumers.</p>	<p><b>Consumers</b></p> <ul style="list-style-type: none"> <li>★ Direct public engagement with end-consumers is prohibited by the National Authority on Tobacco and Alcohol (NATA) Act including all forms of advertisements.</li> <li>★ Consumer hotline (continuous)</li> <li>★ One-to-one feedback through retailers</li> </ul>	<ul style="list-style-type: none"> <li>★ Affordability</li> <li>★ Value for money</li> <li>★ Customer service and satisfaction</li> <li>★ Product availability</li> <li>★ Product composition</li> <li>★ Product development eg: John Player Gold Leaf (JPGL) Special</li> <li>★ Innovation and company initiatives for harm reduction eg: E-cigarettes</li> </ul>
	<p><b>Distributors and retailers</b></p> <ul style="list-style-type: none"> <li>★ Customer voice survey targeted at exclusive distributors and retailers (as required)</li> <li>★ Provision of value added services including training and guidance to uplift hygiene and customer service standards among hospitality and restaurant sector retailers (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>★ Availability of products</li> <li>★ Affordability</li> <li>★ Credit/payment terms</li> <li>★ Service quality</li> <li>★ Value added services</li> </ul>

Stakeholder Group	Method and Frequency of Engagement	Key Topics and Concerns
<p><b>Employees</b></p>	<ul style="list-style-type: none"> <li>★ 'Your Voice' employee survey (biennially)</li> <li>★ Training and development programmes (continuous)</li> <li>★ One-to-one with ExCo (monthly)</li> <li>★ Interact (continuous)</li> <li>★ 'Connect' Sessions (quarterly)</li> <li>★ Company Plan Cascade (annual)</li> <li>★ Engagement through trade unions (continuous)</li> <li>★ Performance appraisals (annually)</li> <li>★ Manufacturing team meeting (monthly)</li> <li>★ Sports and Recreational Club activities (continuous)</li> <li>★ Pulse newsletter (quarterly)</li> <li>★ Structured electronic and print internal communications through e-mailers, TV screens etc (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>★ Performance and reward management</li> <li>★ Opportunities for skill and career development eg: Global Talent Platform, British American Tobacco Careers Website, International Assignments and Exchange Programmes</li> <li>★ Worker health and safety eg: PULSAR</li> <li>★ Ethics and business conduct</li> <li>★ Improving Diversity eg: Women-Inspire-Connect-Empower Network</li> <li>★ Freedom of association and collective bargaining</li> <li>★ Work-life balance</li> </ul>
<p><b>Business Partners</b></p> <p>Our value chain partners consist of leaf suppliers - farmers, barn owners and out-growers, who are critical to our sourcing operations and non-leaf suppliers who supply packaging and other materials.</p>	<ul style="list-style-type: none"> <li>★ Disseminating knowledge and best practices in sustainable cultivation methods (continuous)</li> <li>★ Farmer appreciation programme (annually)</li> <li>★ Engagement through SADP (continuous)</li> <li>★ Supplier assessment</li> </ul>	<ul style="list-style-type: none"> <li>★ Fair pricing and buy-back guarantees for tobacco leaves</li> <li>★ Timely payments</li> <li>★ Community development</li> <li>★ Financial assistance</li> <li>★ Training on agricultural and environmental best practices</li> </ul>
<p><b>Regulators</b></p> <p>We engage with NATA, Ministry of Health, Ministry of Finance and Planning, Ministry of Agriculture, Sri Lanka Customs, Department of Excise and Law Enforcement Authorities.</p>	<ul style="list-style-type: none"> <li>★ Direct engagement with relevant Departments and Ministries (continuous)</li> <li>★ Engagement through business forums, associations and councils (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>★ Compliance to all applicable laws and regulations</li> <li>★ Timely payment of relevant excise duties, taxes and levies</li> <li>★ Community development and rural empowerment</li> <li>★ Collaboration to counter illicit trade</li> </ul>
<p><b>Local Communities</b></p> <p>Over 69,000 beneficiaries of the Company's flagship CSI project, SADP.</p>	<ul style="list-style-type: none"> <li>★ Knowledge transfer and skills development (continuous)</li> <li>★ Provision of resources such as seeds and animal husbandry to facilitate empowerment (continuous)</li> </ul>	<ul style="list-style-type: none"> <li>★ Generate an alternative source of income</li> <li>★ Improved nutrition levels</li> <li>★ Elevate socio economic conditions</li> <li>★ Female empowerment</li> <li>★ Environmental protection (Reduced carbon footprint)</li> </ul>

# DETERMINING MATERIALITY

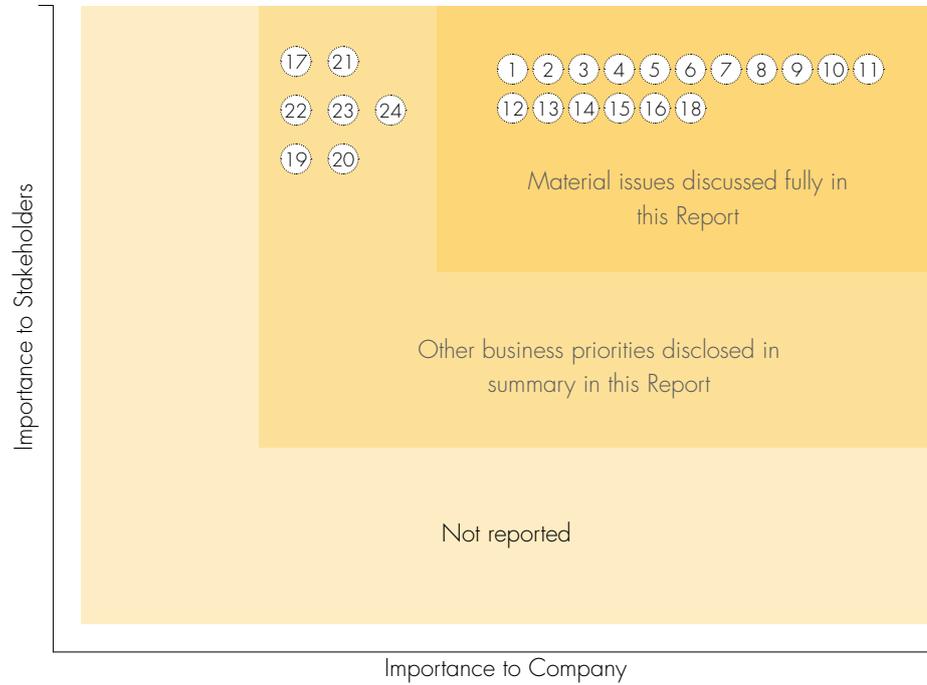
The stakeholder engagement processes discussed on page 8 enables the Company to identify issues which are most relevant to our stakeholders, ensuring that the sustainability metrics we measure and manage are aligned with what our stakeholders want. Our material issues also reflect our strategic priorities and the contextual trends that could potentially affect our value creation process.

Having conducted this process during the year, we identified several sustainability topics that have the most material significance to our business and stakeholders and form the

Company's sustainability agenda. Full disclosure is provided in this Report pertaining to these material aspects whilst other business priorities are discussed in summary form. In addition to the identified material aspects this Report also fully discusses the Company's economic, social and environmental performance in line with the GRI G4 guidelines. On page 149 we clearly disclose how our material aspects correspond to the disclosures recommended by GRI.

The material aspects and the relevant GRI disclosures (if any) discussed in each section of this Report are listed at the start of each section.





Economic Performance	
1	Economic performance
2	Growth
3	Productivity
Harm Reduction	
4	Scientific research
5	Product innovation
Sustainable Agriculture and Farmer Livelihoods	
6	Supporting farmers
7	Environmental impacts of tobacco growing
8	Agricultural practices
Corporate Behaviour	
9	Marketing practices
10	Excise and taxes
11	Youth smoking prevention
12	Regulatory engagement
13	Tobacco trafficking
14	Minimising environmental footprint of our operations

Employees	
15	Employee engagement
16	Training and development
17	Workplace human rights
18	Occupational health and safety
Community Engagement	
19	Corporate Social Investment
20	CSI governance
21	Litigation
Other Priorities	
22	Non-leaf supply chain
23	Retailer relationships
24	Stakeholder engagement

# CHAIRMAN'S MESSAGE



CTC IS THE LARGEST CONTRIBUTOR TO NATIONAL TAX REVENUE AND CONTRIBUTED RS. 91.6 BILLION DURING 2015 ACCOUNTING FOR 7% OF THE GOVERNMENT'S TOTAL TAX REVENUE.

Q:

Can you comment on how the Company performed in 2015?

A:

It is my pleasure to report to our shareholders that Ceylon Tobacco Company PLC (CTC) has delivered a profit after tax of Rs.10.6 billion in 2015 recording a growth of 23% over the previous year. Shareholder returns increased by 14% during 2015, which can be attributed to the strong financial performance recorded during the year. The Board has recommended a final dividend of Rs. 3.70 per share in addition to the four interim dividends paid which takes the total dividend for 2015 to Rs. 45.15 per share.

CTC's performance is commendable given the macro-economic environment that prevailed during the year. Global economic growth was moderate at 3.1% in 2015 with Advanced Economies growing at 1.9% while Emerging Markets and Developing Economies grew at 4%. Against this backdrop, Sri Lanka's GDP growth rate for the first three quarters was 5.2% as per the new methodology adopted to

» NET PROFIT

Rs. 10.6bn

A growth of 23% over the previous year.

measure GDP in July 2015. Growth was driven by improved performance in all sectors characterised by low inflation, gradually increasing interest rates and an exchange rate under pressure due to increased imports and declining exports. From a performance perspective, we were able to achieve a growth in our volumes after three years of decline.

CTC also ranked amongst the top ten most respected companies in the country and has earned many other accolades and awards, a commendable achievement given the low visibility in the market due to regulatory restrictions. This reflects sound governance, strong values and world class processes adopted by your Company.

Q:

**What were the key challenges during the year and how did they impact performance?**

A:

Increased excise levies were a challenge; as contrary to popular belief, the demand for cigarettes is highly dependent on pricing, leading price pressured consumers to switch to cheaper alternatives such as beedi. However the increased disposable income and increasingly discerning consumers coupled with CTC's focus on increasing availability of its products in the market offset the impact of the excise levies.

Smuggled cigarettes continue to be a challenge despite continued action by law enforcement authorities to curtail illicit trade. In 2015, 21.6 million illicit cigarettes were confiscated, a reduction of 29% when compared to the previous year. During the year we continued to support law enforcement authorities to curb the illegal trafficking of cigarettes by creating awareness and sharing resources. However we urge relevant authorities to stay vigilant since smugglers will continue to find new ways and means of trafficking illegal cigarettes into the country.

The latter part of 2015 saw our valued business partners – tobacco farmers – facing difficulties due to proposed restrictions on cultivating tobacco on paddy lands. It was however very encouraging to note that the tobacco farmers and barn owners mobilised themselves to meet this challenge head on by entering into a dialogue with the relevant stakeholders. As a result we are confident that the Government will not ignore the significance of tobacco cultivation which, in 2015, infused over Rs. 790 million into the rural economy and strengthened over 20,000 farmer livelihoods.

Q:

**How would you describe CTC's economic significance to Sri Lanka?**

A:

During our 110 years of operation in Sri Lanka we have become intimately interwoven in to the country's modern history and its socio-economic progress in numerous ways. Firstly, CTC is the largest contributor to national tax revenue and contributed Rs. 91.6 billion during 2015 accounting for 7% of the Government's total tax revenue. This constitutes approximately 88% of the value generated by the Company making the Government a key stakeholder in our business. CTC is also Sri Lanka's 2nd largest company in terms of market capitalisation in the Colombo Stock Exchange. Our business operations support over 181,000 livelihoods across our fully fledged 'crop to consumer' supply chain. The Sustainable Agricultural Development Programme (SADP), CTC's flagship Corporate Social Investment project, has empowered rural communities across the island while supporting the country's efforts on poverty alleviation. From another angle, CTC provides direct employment to 264 persons and has been recognised for nurturing highly skilled professionals who are valued in the market both in Sri Lanka and overseas.

# CHAIRMAN'S MESSAGE

Q:

**CTC has a strong reputation for its commitment to sustainability and good governance. How does the Board drive this?**

A:

The British American Tobacco Group (BAT) has been a champion of sustainability for over a decade and its listing on the Dow Jones Sustainability Index for the past 14 years bears testimony to this. An evolved business model which takes a holistic approach to measuring and monitoring economic, social and environment impacts of operations is at the heart of BAT's success as a top performer in the London Stock Exchange. CTC as part of the BAT Group benefits from the Group's global policies, processes, and extensive investments in to research and development.

CTC's Board includes five Non-Executive Directors who have diverse expertise in the corporate sector with experience serving on Boards of blue chips, a key strength as they are fully seasoned in matters relating to governance. They are also keen proponents of sustainability agendas in corporate boards and collectively provide insightful guidance in this regard. The two Executive Directors are well versed in the Group's culture which integrates sustainability, good governance and accountability in to CTC's business model. These factors enrich the Board's deliberations and discussions ensuring that diverse views are considered in matters set before us resulting in more robust decision making. The Board also benefits from rigorous monitoring processes which provide information on financial and non-financial aspects of our operations, supporting objective decision making and early identification of issues that require interventions.

Consumer confidence and the many awards and accolades won in the past year bear testimony to CTC's governance and commitment to sustainability.

WE CONTINUE OUR  
WORK WITH THE  
TOBACCO FARMERS,  
INCULCATING GOOD  
AGRICULTURAL PRACTICES,  
INFUSING WEALTH  
AND GENERATING  
LIVELIHOODS IN RURAL  
PARTS OF THE COUNTRY,  
AND CONTRIBUTING TO  
THE SOCIO-ECONOMIC  
DEVELOPMENT OF THE  
NATION.

Q:

**Were there any key developments in regulation during the year?**

A:

CTC supports balanced regulation of the tobacco industry and believes that such regulation is necessary. Well considered evidence based regulations will level the playing field and reduce threats from illicit tobacco products and under regulated products such as beedi. However, impractical regulations introduced on an ad-hoc basis is a key challenge as it has the potential to tip the scales in favour of illicit trade and beedi

which is ultimately detrimental to consumers, the legal tobacco industry and the Government. Accordingly we are pleased to see the extension of the pictorial health warnings to all tobacco products including beedi which accounts for a significant portion of the total tobacco market. Proposals to impose higher levies on beedi are also welcome as it will reduce disparities between market players.

The tobacco industry is a legal business that has been in existence for over 100 years and continues to evolve with stakeholder expectations. Despite being in a controversial industry, CTC has and will continue its commitment to preserving the interests of our adult consumers and stakeholders at the heart of our business.

Q:

**Looking ahead, how do you expect CTC to perform in 2016?**

A:

CTC is well positioned to deliver value to its stakeholders in 2016. We see the Sri Lankan consumer increasing in sophistication and purchasing power which is good for our premium brands as well as John Player Gold Leaf (JPGL). We continue our work with the tobacco farmers, inculcating good agricultural practices, infusing wealth and generating livelihoods in rural parts of the country, and contributing to the socio-economic development of the Nation. Productivity initiatives implemented during 2015 are expected to drive operational excellence ensuring that we continue to focus on quality while optimising resource allocation. A winning organisation is a key pillar of our strategy and several initiatives have been concluded satisfactorily to ensure that the organisation is fit to face future challenges.

Q:

**What would you like to say in conclusion?**

A:

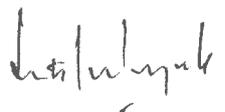
I would like to thank the outgoing Managing Director (MD) and Chief Executive Officer, Mr. Felicio Ferraz who will resign from the Board with effect from 01 March 2016.

Mr. Ferraz, who led his team to success in 2015, played a critical role in steering your Company through a challenging phase in its history. Whilst thanking Mr. Ferraz for his commitment and outstanding contribution to the success of the Company I wish him the very best in his new role at BAT Costa Rica. Mr. Ferraz hands over a world class operation to Mr. Michael Koest who succeeds him at the helm as the MD and Chief Executive Officer of CTC. Let me warmly welcome Mr. Koest, and wish him all the very best in his new endeavour.

Mr. Stephan Matthiesen also retired from the Board during the year to take up the role of Head of Commercial Finance for the Asia Pacific Region at BAT Hong Kong. He was replaced by Mr. Shigeki Endo who took over as Finance Director at CTC with effect from August 2015. I take this opportunity to thank Mr. Matthiesen for his invaluable contribution to the success of the Company and warmly welcome Mr. Endo on board.

To my fellow Directors, I extend my sincerest appreciation for their valuable insights and for enriching the deliberations of the Board. I also offer my heartiest congratulations to CTC's winning team of employees who have worked together to surmount challenges and achieve common goals in a spirit of camaraderie.

Let me also convey my gratitude to our stakeholders for the unwavering confidence placed in the Board, the Management team and the Company. Let me conclude by reiterating our commitment to continue delivering value to you and the Nation at every opportunity.



**Susantha Ratnayake**  
Chairman

18 February 2016

# MD AND CHIEF EXECUTIVE OFFICER'S STATEMENT



IT IS MY PLEASURE TO REPORT THAT YOUR COMPANY RECORDED RS. 10.6 BILLION AS PROFIT AFTER TAX STRONGLY SUPPORTED BY VOLUME GROWTH AND OPERATIONAL EFFICIENCIES, AN INCREASE OF 23% OVER THE PREVIOUS YEAR.

Q:

How did CTC perform in 2015?

A:

We had a great year despite all the challenges and being part of one of the largest multinationals in the world - the British American Tobacco Group (BAT) - was a key factor in our success. The Group's global strategy, 'The BAT Way', enabled us to deliver a commendable performance in 2015 whilst strengthening our ability to create value for our stakeholders. Our strategy has evolved over the years becoming more consumer-centric to drive leadership of the market in tobacco and beyond. Focusing on the key pillars of our strategy - growth, productivity, sustainability and winning organisation enabled us to deliver volume and revenue growth after 3 years of declining volumes.

» GROSS REVENUE

Rs. 106.5bn

A growth of 21% over the previous year.

It is my pleasure to report that your Company recorded Rs. 10.6 billion as profit after tax strongly supported by volume growth and operational efficiencies, an increase of 23% over the previous year. This was the year of John Player Gold Leaf (JPG), our “bread and butter” and also the year of Dunhill Switch, our most premium and innovative brand in the market. We achieved a revenue growth of 21% amounting to Rs. 106.5 billion despite an increase of 22% in Government levies and increased regulation.

**Q:**

**What were the key developments in your operating environment?**

**A:**

The Sri Lankan consumer is becoming more discerning and sophisticated as their disposable income increases. They are also exposed to a wider array of goods and services that are directly or indirectly competing with our products. It was therefore encouraging to observe the increasing demand for our premium brands and the migration of beedi consumers to our brands, during the year.

Excise duty is another important factor that we should always bear in mind as excessive increases always lead to a volume decline. We lost almost 25% of our volume from 2011 to 2014 which demonstrates that the demand for our product is not inelastic and could end up resulting in lower tax revenues for the Government when consumers migrate to beedi or smuggled products.

Regulation remains a key area of concern for us. The 80% pictorial health warning introduced on tobacco product retail packaging in 2015 can favour illegal products such as smuggled or counterfeit cigarettes mainly because smugglers do not respect any regulation on top of which they pay no excise or taxes.

As almost 100% of tobacco leaf used in the manufacture of our products is grown locally, we are vulnerable to the weather conditions, another threat that we face in this market. If extreme weather patterns continue or unreasonable cultivation restrictions are imposed on domestic leaf production

the only solution would be to import tobacco leaf from other countries, which is a loss for the economy of Sri Lanka – loss of hard currency, loss of value infused in rural areas and the loss of jobs.

**Q:**

**Can you describe the relevance of CTC to Sri Lanka?**

**A:**

Your Company continued to be a key partner in Sri Lanka’s economic progress in its 110th year of operation as the single largest contributor to the Government’s total tax revenue, representing 7% of the tax revenue, generating livelihoods for over 181,000 people and infusing over Rs. 5.7 billion in to the rural economy. CTC occupied the top two positions (depending on the month) on the Colombo Stock Exchange and accounted for over 7% of the total market capitalisation. During the year in review we were also ranked amongst the top ten most respected companies reflecting our strong commitment to governance and corporate responsibility.

**Q:**

**How did regulation impact operations?**

**A:**

We view regulation as a necessity for the industry we operate in and welcome balanced, evidence based regulation as it is in the best interests of our consumers. However, regulation must be effective ensuring that it does not favour unfair competition such as smuggled cigarettes and other tobacco products like beedi. We manufacture cigarettes in a controlled environment adhering to world class quality standards. Our manufacturing processes are supported by our parent company’s state of the art research facilities focussing on harm reduction. However, we compete with alternatives which are not manufactured under controlled conditions or those which evade regulation and levies, which result in not just loss of market share for CTC and loss of revenue to the Government but also and most importantly the potential harm to consumers.

# MD AND CHIEF EXECUTIVE OFFICER'S STATEMENT

While the year kicked off with CTC having to implement 60% pictorial health warnings on our cigarette packs, it was enlarged to 80% within a matter of three months. Despite the short notice given we fully complied with this regulation with the co-operation of all our suppliers.

It is encouraging to see that the second wave of regulations on pictorial health warnings extended to all tobacco products including beedi, which now accounts for approximately 43% of the tobacco market in the country. Proposals to increase taxation and levies on beedi are welcome and will serve to reduce disparities in the market between factory manufactured cigarettes and other tobacco products. Regulation should be applicable to all tobacco products in the market to ensure a level playing field, which we believe is the right way forward.

As a responsible tobacco company CTC always complies with all laws and regulations applicable to our business. We also go above and beyond what is required by the law and take measures to ensure that our employees and distributors do so as well. Consequently, we have in place our Standards of Business Conduct for all employees and we provide training to distributors to ensure that they also understand and abide by these high internal standards.

Q:

**Sustainability is a key pillar of CTC's strategy. How did you deliver on this pillar in 2015?**

A:

Sustainability is integrated into CTC's business model with high levels of awareness amongst all employees. BAT plays a key role in this as we are fully aligned to the Group's strategy. Listed on the London Stock Exchange, BAT is the only tobacco company to be included in the Dow Jones Sustainability Index for the past 14 years consecutively reflecting the Group's strategic focus on Sustainability. In a nutshell, we walk the talk.

Our tobacco farmers are taught sustainable agricultural practices and high levels of engagement ensure that innovative ideas are tested and adopted. Measurement of inputs including material, energy and water are tracked together with outputs of waste, effluents and emissions to ensure that we manage and minimise our impact on the environment.

**AS A RESPONSIBLE  
TOBACCO COMPANY  
CTC ALWAYS COMPLIES  
WITH ALL LAWS AND  
REGULATIONS APPLICABLE  
TO OUR BUSINESS. WE  
ALSO GO ABOVE AND  
BEYOND WHAT IS REQUIRED  
BY THE LAW AND TAKE  
MEASURES TO ENSURE  
THAT OUR EMPLOYEES AND  
DISTRIBUTORS DO SO AS  
WELL.**

Our consistent performance in this vital area is achieved through a commitment to upholding our policies and a continuous improvement cycle in all systems and processes. Our flagship Corporate Social Investment initiative, the Sustainable Agricultural Development Programme, empowers rural communities and has helped improve the livelihoods of over 69,000 beneficiaries, by providing basic agricultural knowledge and resources needed to take up home gardening.

Q:

**What was CTC's people strategy?**

A:

Creating a winning organisation is a key pillar of our strategy and is a robust one that facilitates talent attraction, retention and development. Our philosophy is that we have to invest as much time in people as we invest in our brands and products.

It is extremely gratifying to see our top performers joining global programmes while realising their aspirations, and CTC has a proud track record in this regard.

Our productivity increased during the year as we focussed on the Group's 10 Must Do's which served to align our employees with the Company strategy, driving greater understanding of priorities and expected behaviours. We also spent considerable effort to prepare the organisation for the future, commencing with the 'Spartan Challenge' which geared our employees to face challenges with a positive mind-set.

CTC's employee climate survey aptly named 'Your Voice' ensures that we identify and address employee concerns in a structured manner at regular intervals. Open discussion about our business and opportunities enriches the employee experience. Consequently, we are more efficient, agile and leaner as an organisation and our employees are "fit-to-fight".

Q:

**What do you think is the future of the tobacco industry and what can we expect in 2016 from CTC?**

A:

Even the World Health Organisation predicts that in 50 years' time, the volume of cigarettes consumed is likely to remain the same. BAT has taken a stance to invest seriously in research and development to create less harmful alternatives, a key focus in the Group's sustainability agenda. BAT has developed next generation products which include vapour products such as E-cigarettes which are gaining popularity in many countries. Combustible cigarettes are also being improved through innovations in filters and ingredients. We see a future in both types of products moving forward and BAT is geared to win in both segments.

Supporting law enforcement agencies to fight illicit tobacco products and level the playing field remains very much on our agenda as a responsible tobacco manufacturer. The return of beedi consumers to cigarettes is a positive trend and research has confirmed that migration to beedi in the past was the result of price pressures and not the product itself.

We are also implementing a programme to invest in new machinery after 15 years which will improve our productivity and bring more flexibility to our business.

As a marketing organisation, we are more agile and leaner with the ability to have products reaching adult consumers in less than a week. We have around 70% market awareness

with no advertising which is a significant achievement. A loyal and long-standing network of 16 exclusive distributors is vital to our success enabling us to reach over 72,000 outlets throughout the country. CTC looks forward to continue growing in the coming years supported by high levels of market awareness and consumer satisfaction resulting from a strong commitment to product quality.

Q:

**What would you like to say in conclusion?**

A:

I will be stepping down from my position as Managing Director and Chief Executive Officer from 01 March 2016 having completed three years at the helm of this prestigious Company. I would like to take this opportunity to welcome Mr. Michael Koest who will be taking over from me and wish him all the very best. I would also like to thank the Chairman, the Board and the Executive Committee (ExCo) for their support and guidance throughout my tenure in Sri Lanka. During my stint at CTC I had the honour of leading CTC through one of the most challenging yet rewarding periods. I also had the distinct pleasure of leading an excellent team and I would like to thank them for all the support which ensured that together we overcame all challenges to deliver an outstanding performance. I am sure my successor will receive the same warm welcome that I enjoyed, followed by the support and commitment extended to me. Let me conclude by saying that I am confident of your Company continuing to be the benchmark of corporate excellence in Sri Lanka.



**Felicio Ferraz**  
MD and Chief Executive Officer

18 February 2016

# THE BOARD OF DIRECTORS



**SUSANTHA RATNAYAKE**  
Chairman



**FELICIO FERRAZ**  
MD and Chief Executive Officer



**DINESH WEERAKKODY**  
Director



**PREMILA PERERA**  
Director and Audit Committee Chairperson



**SHIGEKI ENDO**  
Finance Director



**SYED JAVED IQBAL**  
Director

**KENNETH GEORGE ALLEN**  
Director  
(Photograph not shown)

# THE BOARD OF DIRECTORS

## PROFILES OF THE BOARD OF DIRECTORS

<b>Susantha Ratnayake</b> Chairman	<b>Felicio Ferraz</b> MD and Chief Executive Officer	<b>Dinesh Weerakkody</b> Non-Executive Director
<b>POSITION:</b> Chairman since March 2013, Non-Executive Director since October 2006.	<b>POSITION:</b> MD and Chief Executive Officer since March 2013.	<b>POSITION:</b> Non-Executive Director since July 2014.
<b>CURRENT APPOINTMENTS:</b> Chairman/CEO of John Keells Holdings PLC. Chairman of Employers Federation of Ceylon.	<b>CURRENT APPOINTMENTS:</b> Non-Executive Director on the Board of Pakistan Tobacco Company. Serves on the Boards of the American Chamber (AmCham) and Council for Business with Britain (CBB).	<b>CURRENT APPOINTMENTS:</b> Advisor to Ministry of National Policy and Economic Affairs. Chairman National Human Resource Development Council of Sri Lanka. Vice President of the International Chamber of Commerce (Sri Lanka Chapter). Non-Executive Director of GlaxoSmithKline Sri Lanka, Hemas Holdings PLC, CIC Holdings PLC and Access Engineering PLC. Chairman of Cornucopia Lanka Ltd. Director/Advisor of Cornucopia Bangalore, India.
<b>PAST APPOINTMENTS:</b> Chairman of the Sri Lanka Tea Board, Chairman of the Ceylon Chamber of Commerce.	<b>PAST APPOINTMENTS:</b> Marketing Director of BAT Cuba. Country Manager of Caribbean Islands, Costa Rica, Guatemala and Dominican Republic.	<b>PAST APPOINTMENTS:</b> 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.
<b>SKILLS AND EXPERIENCE:</b> Mr. Ratnayake has over 37 years of multi-faceted management experience within the John Keells Group and has served on its Board for over 20 years. He has also chaired and served on numerous industry association committees.	<b>SKILLS AND EXPERIENCE:</b> Mr. Ferraz has held multiple roles within the BAT Group in trade marketing, branding and management. He holds a Bachelor's Degree in Mechanical and Industrial Engineering from the PUC-RJ, a Business Administration degree from the Estate University of Rio de Janeiro and a postgraduate degree in Strategic Marketing from Darden University, Virginia – USA.	<b>SKILLS AND EXPERIENCE:</b> 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.

<b>Premila Perera</b> Non-Executive Director and Chairperson of the Audit Committee	<b>Shigeki Endo</b> Finance Director	<b>Syed Javed Iqbal</b> Non-Executive Director	<b>Kenneth George Allen</b> Non-Executive Director
<b>POSITION:</b> Non-Executive, Independent Director and Chairperson of the Audit Committee since January 2013.	<b>POSITION:</b> Finance Director since August 2015.	<b>POSITION:</b> Non-Executive Director since May 2014.	<b>POSITION:</b> Non-Executive Director since October 2014.
<b>CURRENT APPOINTMENTS:</b> Non-Executive Director of John Keells Holdings PLC and Holcim (Lanka) Limited.	<b>CURRENT APPOINTMENTS:</b> N/A	<b>CURRENT APPOINTMENTS:</b> Director Finance and IT of BAT Pakistan.	<b>CURRENT APPOINTMENTS:</b> Head of Regional Operations for Finance at BAT Singapore.
<b>PAST APPOINTMENTS:</b> Partner of KPMG Sri Lanka since 1990. Head of Tax of KPMG. Regional Tax Director of KPMG Asia Pacific (Singapore) in 2000/2001. Member of the Main Committee of the Ceylon Chamber of Commerce.	<b>PAST APPOINTMENTS:</b> Finance Director for BAT Cambodia. Commercial Finance Controller for BAT Japan.	<b>PAST APPOINTMENTS:</b> Finance Director for the BAT Swiss business unit. Finance Controller for BAT South Korea.	<b>PAST APPOINTMENTS:</b> Operations Finance Manager and Corporate Finance Manager for BAT New Zealand. Supply Chain Finance Manager and Financial Controller for BAT Australia.
<b>SKILLS AND EXPERIENCE:</b> Ms. Perera has extensive experience in the areas of international tax, financial services, mergers and acquisitions. She has served as Regional Tax Director of KPMG Asia Pacific, as a member of the Global Task Force commissioned by the International Board of KPMG in 1998, to advise the Board on future direction in determining its long term strategic plans and faculty of the KPMG International Tax Business School. She also served a period of secondment with the US Firm's National Tax Office in Washington DC, and was a participant at the KPMG-INSEAD International Banking School programme.	<b>SKILLS AND EXPERIENCE:</b> Prior to joining BAT Group, Mr. Endo has spent almost 20 years in a multinational firm in numerous senior finance roles, including global audit roles, based in the UK, US and Asia Pacific (Tokyo, Hong Kong, Singapore). Mr. Endo holds a Bachelor of Science (B.S.B.A.) from Boston University School of Management, an MBA in International Accounting (IFRS) from Chuo University in Japan, an AMP from University of Oxford.	<b>SKILLS AND EXPERIENCE:</b> With over 20 years of experience in the BAT Group, Mr. Iqbal has held senior key finance roles in various markets and at the Global Headquarters. He has an MBA degree with majors in Finance & MIS.	<b>SKILLS AND EXPERIENCE:</b> Mr. Allen has over 25 years' experience in the tobacco industry and has held several senior finance 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.

# THE EXECUTIVE COMMITTEE



**FELICIO FERRAZ**  
MD and Chief Executive Officer



**SHIGEKI ENDO**  
Finance Director



**KAVINDA NANAYAKKARA**  
Marketing Director

# THE CORE OF EXCELLENCE

**SHAH MANSOOR KHALIL**  
Supply Chain Director



**SAMANMALI CHANDRASIRI**  
Human Resources Director

**DINESH DHARMADASA**  
Legal and External Affairs Director



**RANJAN SENEVIRATNE**  
Company Secretary

# CORPORATE GOVERNANCE

## BOARD ACTIVITIES IN 2015

Growth	Productivity
<ul style="list-style-type: none"> <li>★ Reviewing the implementation of the Company's strategy and plan and monitoring performance against strategic priorities.</li> <li>★ Focusing on CTC's product strategy, with a view on enhancing consumer value through product elements.</li> <li>★ Reviewing the portfolio mix to ensure coverage across all segments of the market.</li> </ul>	<ul style="list-style-type: none"> <li>★ Reviewing and approving productivity and smart cost management initiatives across the organisation.</li> <li>★ Tracking and reviewing savings generated through above initiatives and providing guidance on further optimisation.</li> </ul>
Sustainability	Winning Organisation
<ul style="list-style-type: none"> <li>★ Strengthening the Company's risk management framework.</li> <li>★ Adopting and implementing a comprehensive business continuity plan.</li> <li>★ Ensuring corporate governance and statutory compliance.</li> <li>★ Adopting a code of ethics and corporate conduct.</li> <li>★ Adopting policies to ensure transparency and disclosure of information.</li> <li>★ Advising on adopting strategies to face regulatory and reputation challenges.</li> <li>★ Managing relationships with external stakeholders.</li> <li>★ Implementing CTC's sustainability agenda in line with the Group's strategy.</li> <li>★ Reviewing progress of CTC's corporate social investments.</li> <li>★ Reviewing Company's health and safety policy and performance.</li> <li>★ Reviewing Company's environmental policy and performance.</li> </ul>	<ul style="list-style-type: none"> <li>★ Reviewing Company's plans on developing and retaining top talent.</li> <li>★ Reviewing and approving the Company's remuneration framework for management staff.</li> <li>★ Reviewing action plans to meet CTC's diversity ambitions.</li> <li>★ Reviewing talent plan and detailed succession planning.</li> <li>★ Adopting a competitive rewards scheme.</li> </ul>

## GOVERNANCE FRAMEWORK

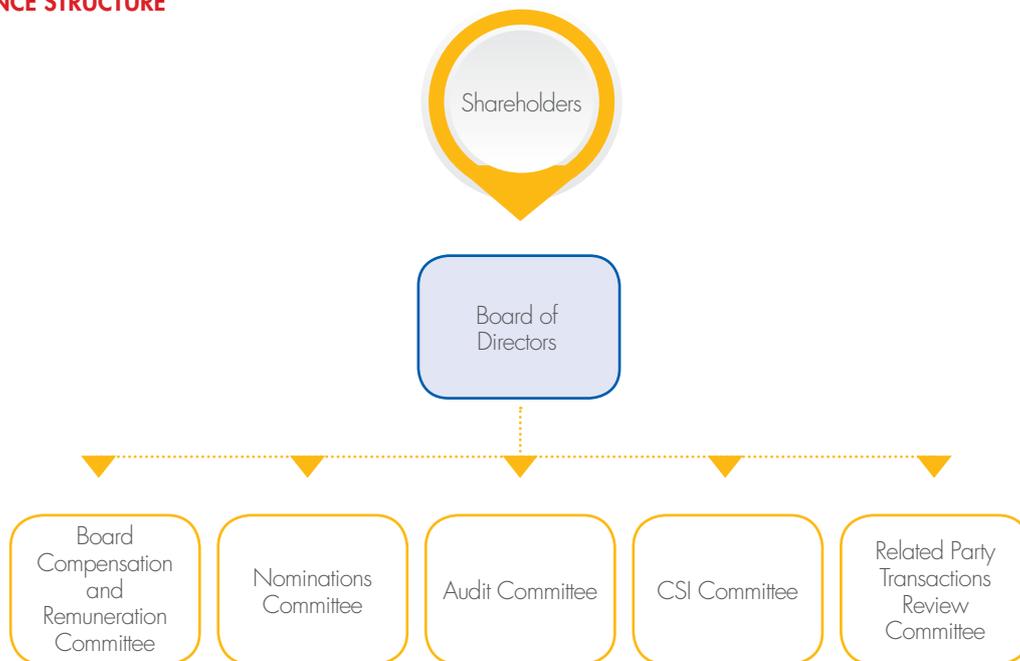
The corporate governance practices in place at CTC ensure sustainable value creation for all stakeholders and extend beyond legal requirements to embrace voluntary codes and international best practices. We are committed to achieving our business objectives in a transparent and accountable manner. In order to achieve this objective we have adopted a clearly defined governance structure which sets out a process to guarantee that power is balanced appropriately within the Organisation. A comprehensive code of business conduct and whistle blowing process ensures that the Company meets the expected high standards of corporate conduct and behaviour.

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 Listing 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 and Exchange Commission (SEC) of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka (ICASL), 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).

Standards and Principles		Governance Systems
Internal	External	
<ul style="list-style-type: none"> <li>★ Vision, Guiding Principles and 'Must Do's'.</li> <li>★ Articles of Association.</li> <li>★ Standards of Business Conduct.</li> <li>★ Group's Corporate Governance Framework and practices.</li> <li>★ Statement of Delegated Authorities.</li> <li>★ Group's Stakeholder Engagement Guidance.</li> <li>★ Terms of References for Board and Board Sub-Committees.</li> <li>★ Comprehensive framework of policies, systems and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>★ Companies Act No. 7 of 2007.</li> <li>★ Listing Rules of the Colombo Stock Exchange.</li> <li>★ Code of Best Practice on Corporate Governance issued by the SEC and ICASL.</li> <li>★ Sri Lanka Accounting Standards.</li> <li>★ Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC).</li> <li>★ G4 Standards for Sustainability Reporting issued by the Global Reporting Initiative (GRI).</li> </ul>	<ul style="list-style-type: none"> <li>★ Strategic planning.</li> <li>★ Stakeholder engagement and management.</li> <li>★ Risk management.</li> <li>★ Regulatory compliance.</li> <li>★ People management.</li> <li>★ CSI governance.</li> <li>★ Internal and external audit.</li> <li>★ Related Party Transactions.</li> </ul>

# CORPORATE GOVERNANCE

## 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.



## AN EFFECTIVE BOARD

CTC's Board consists of five Non-Executive Directors (including the Chairman) and two Executive Directors. The MD and Chief Executive Officer and Finance Director are the Executive Directors on the Board. (Please refer page 22 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, three 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 five 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 (SOBC) and other policies.

Board sub-committees have been set up with specific responsibilities to assist the Board in discharging its duties. During the year, the Related Party Transactions Committee was established in compliance with the requirements of the Listing Rules of the Colombo Stock Exchange. The composition and key responsibilities of the Board sub-committees are:

Sub-Committee	Composition	Mandate
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 a 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.

# CORPORATE GOVERNANCE

## AN EFFECTIVE BOARD (CONTD)

Sub-Committee	Composition	Mandate
Board Compensation and Remuneration Committee	Consists of two 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 Listing Rules and Code of Best Practises 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 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 MD and Chief Executive Officer 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.

## ATTENDANCE AT BOARD AND BOARD SUB-COMMITTEE MEETINGS

Director	Board	Audit Committee	Board Compensation and Remuneration Committee	Nominations Committee	CSI Committee	Related Party Transactions Review Committee <sup>++</sup>
Mr. Susantha Ratnayake <sup>**</sup>	04/04 +		01/01+	02/02 +	01/01 +	
Mr. Felicio Ferraz	04/04	02/02 ^	01/01		01/01	
Mr. Stephan Matthiesen (Retired w.e.f. 4 August 2015)	02/04	01/02 ^			01/01	
Mr. Shigeki Endo (Appointed w.e.f. 4 August 2015)	01/04	01/02 ^				
Mr. Javed Iqbal <sup>*</sup>	03/04					
Mr. Kenneth Allen <sup>*</sup>	04/04	02/02				
Ms. Premila Perera <sup>**</sup>	04/04	02/02 +	01/01	02/02		
Mr. Dinesh Weerakkody <sup>**</sup>	04/04	02/02			01/01	
Mr. Asim Imdad Ali <sup>***</sup>					01/01	

\* Non-Executive Director

\*\* Independent Non-Executive Director

\*\*\* Non-Executive Member

+ Chairman of the Committee

^ Invitee to the Committee

<sup>++</sup> The Board appointed the Related Party Transactions Review Committee on 8 May 2015 in order to commence the proceedings of the Committee from 2016 in compliance with Section 9 of the CSE Listing Rules.

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, defined and compliance responsibilities are allocated to the relevant departments. A checklist of regulatory payments including excise and sales tax, Employee Provident Fund (EPF) and Employee Trust Fund (ETF) contributions are tabled for review to the 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.

# CORPORATE GOVERNANCE

## BOARD INDUCTION AND TRAINING

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 others is provided to all newly appointed Directors. Non-Executive Directors undergo a three-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.

## ROLE OF THE CHAIRMAN AND THE MD AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the MD and Chief Executive Officer are segregated to ensure appropriate balance of power and authority. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of both Executive and Non-Executive Directors.

The Chairman's duties and responsibilities include:

- ★ Chair meetings of shareholders and of the Board;
- ★ Monitor the performance of the MD and Chief Executive Officer and other Directors and to act on performance evaluations undertaken by the Board by recognising the strengths and weaknesses of the Board and, if appropriate, proposing new members or seeking resignations; and

- ★ Lead the direction of the Company, with particular emphasis on:
  - Corporate and business strategy;
  - Financial strategy;
  - Corporate culture and corporate management structure;
  - Corporate governance and standards of business conduct; and
  - The establishment and maintenance of controls and policies necessary to protect the rights and interests of shareholders and creditors of the Company.

The MD and Chief Executive Officer is accountable to the Board of Directors, for the discharge of the following specific duties and responsibilities (among others):

- ★ Chair meetings of the Executive Committee;
- ★ Be responsible and accountable to the Board for the management and profitable operation of the Company;
- ★ Prepare plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board; and
- ★ Create conditions within the Company for the efficient operation by the management and other employees.

The performance of the MD and Chief Executive Officer is appraised on an annual basis by the Board and relevant regional heads of the Group. Financial and non-financial targets are set for the MD and Chief Executive Officer at the commencement of each financial year, reflecting the Company's financial, social and environmental objectives.

## BOARD APPOINTMENTS

New appointments to the Board are based on recommendations of the Nominations Committee which is responsible for ensuring that the Board has an appropriate balance of expertise and ability. As per the Company's Articles of Association the Chairman is elected for a term of five years and the Directors for a term of three years with a possible extension of a further term of three years. 1/3rd of the Directors submit themselves for retirement at each Annual General Meeting (AGM) and are subject to re-election. The Board is committed to refreshing its membership on a regular

basis and Non-Executive Directors who have served more than six years will not be re-appointed. The following directors thus retire and offer themselves for re-election:

- ★ Mr. Dinesh Weerakkody; and
- ★ Mr. Javed Iqbal.

## BOARD PERFORMANCE

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 Audit Committee is also evaluated separately. The results of the overall evaluation are discussed with the Chairman and presented to the Board and each of the Sub-Committees in respect of its own performance.

## TRANSPARENT 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 49 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 133 of this Report.

## SHAREHOLDER ENGAGEMENT

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

Committee attend the AGM to respond to questions raised by shareholders.

Communication with shareholders is also facilitated through the Company's website and announcements to the 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 clarifications, suggestions or complaints raised by shareholders.

## 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 Annual Report conforms to the G4 guidelines on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer page 43), the Statement of Director's Responsibility (refer page 46), Directors' Statement on Internal Controls (refer page 41).

## THE AUDIT COMMITTEE

The 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 47 of this Report for the Board Audit Committee Report). The Terms of Reference of the 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 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;

# CORPORATE GOVERNANCE

- ★ 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 PricewaterhouseCoopers and the principal/consolidator auditor has not engaged in any services which are in the restricted category as stipulated by the CSE for external auditors. There is a formalised policy in place aimed at safeguarding and supporting the independence and objectivity of the Company's external auditors. As prescribed in this policy external auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity. The audit fees paid by the Company to its auditors are separately classified on page 117 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 50 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 Audit Committee, the Board annually reviews the effectiveness of the Company's risk and internal control systems (Refer page 41 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 which is in line with the Group has been adopted at Board level and is applicable to all Directors, employees and others working on behalf of the Company. 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 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) and the Company maintains a Conflicts Log which details these actual and potential conflicts of interest and the action taken thereof.

## WHISTLE-BLOWING POLICY

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 Audit Committee.

## RELATED PARTY TRANSACTIONS

A Related Party Transactions Review Committee was set up during the year, in compliance with the Listing Rules and related Code of Best Practices of the CSE. 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 29 of the Financial Statements on pages 131 to 133 of this Report.

## SUSTAINABILITY

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.

The Company's performance in each of these priority areas are discussed fully in subsequent sections of this Report.

## SUSTAINABILITY REPORTING

The Company's Annual Report is used as a platform to demonstrate openness and build trust and aims to provide focused and integrated sustainability communications for all our stakeholders. This Annual Report is an Integrated Report, prepared in line with the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). It also complies with the G4 guidelines of the Global Reporting Initiative. At Group level, sustainability reporting includes regular Focus Reports and a dedicated online performance centre, in addition to the Sustainability Summary which is published alongside the Group's Annual Report. The online Sustainability Performance Centre demonstrates progress against our goals, data charts and our reporting against the GRI G4 indicators.

The main Sustainability disclosures prescribed by the Code of best Practices are as follows;

Disclosure	Compliance	Page Reference
Economic Performance	Adopted	62 to 65
The Environment	Adopted	94 to 98
Labour Practise	Adopted	77 to 85
Society	Adopted	86 to 91
Product Service and Responsibility	Adopted	66 to 69
Stakeholder identification, engagement and effective communication	Adopted	8 to 9
Sustainable Reporting and Disclosure	Adopted	143 - 148

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE COMPLIANCE TABLE

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Report on Corporate Governance on pages 26 to 39
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Report on Corporate Governance on pages 26 to 39
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Report on Corporate Governance on pages 26 to 39
7.10.3(a)	Disclosure relating to Directors	The Board shall make a determination annually as to the independent or non independence of each Non-Executive Director	Compliant	Report on Corporate Governance on pages 26 to 39
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 22 to 23
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 22 to 23
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing	Compliant	All three Independent Directors meets the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Report of Remuneration Committee on page 49
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Report of Remuneration Committee on page 49
7.10.5(b)	Report of Remuneration Committee on page 49	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Report of Remuneration Committee on page 49

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;	Compliant	Report of Remuneration Committee on page 49
		a. Names of Directors comprising the Remuneration Committee		
		b. Statement of remuneration policy	Compliant	Report of Remuneration Committee on page 49
		c. Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant	Note 29 (iv) of Financial Statements on page 133
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of Audit Committee on pages 47 to 48
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 Audit Committee on pages 47 to 48
		b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	
		c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	
7.10.6(b)	Audit Committee Functions	Overseeing of the,	Compliant	Report of Audit Committee on pages 47 to 48
		(i) Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards.		
		(ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	
		(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	
		(iv) Assessment of the independence and performance of the external auditors.	Compliant	
(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			

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE COMPLIANCE TABLE (CONTD)

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Report of Audit Committee on pages 47 to 48
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	



# ASSESSMENT OF GOING CONCERN

The financial statements of CTC for the year ended 31 December 2015 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 reporting date.

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

## FINANCIAL INDICATORS

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

## OPERATING INDICATORS

- ★ Low turnover of key management and availability of key succession plans.
- ★ Good track record on Environment, 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 mitigatory 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 control 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 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 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 Audit Committee;

# STATEMENT OF INTERNAL CONTROLS

- ✦ 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 Audit Committee. The scope of the Audit Committee is described in the Corporate Governance Statement and in the Report of the Audit Committee. To ensure complete independence, both external and internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attend the Audit Committee meetings.

Audit reports and findings are presented at Audit Committee meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they have complied with the policy statement on internal control. These best practices were complied with during the year 2015.

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



**Felicio Ferraz**  
MD and Chief Executive Officer



**Shigeki Endo**  
Finance Director

18 February 2016

# REPORT OF THE DIRECTORS

The Directors have great pleasure in presenting their Report to the members for the year ended 31 December 2015, together with the audited financial statements of the Company.

## STRUCTURE AND KEY ACTIVITIES

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

**84.13%**



Ceylon Tobacco Company PLC

### PRINCIPAL ACTIVITY

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

## REVIEW OF THE YEAR

The Chairman's Statement, MD and Chief Executive Officer's Statement and Finance Director's Review together with the Financial Statements highlight the Company's performance for the year under review and state of affairs as at 31 December 2015.

## RESULTS FOR THE YEAR 2015 AND APPROPRIATIONS

	Rs.000's	Rs.000's
Retained profit as at 1 January 2015		2,025,207
Charge relating to Super Gain Tax		(3,810,186)
Current year's profit after charging all expenses and providing for all known liabilities		10,634,328
<b>Dividends</b>		
Dividends of Rs.41.45 per share on the issued share Capital of 187,323,751 shares		
First interim dividend - Rs. 3.45 per share paid on 28/05/2015		
Second interim dividend - Rs. 24.00 per share paid on 18/08/2015		
Third interim dividend - Rs. 9.00 per share paid on 27/11/2015		
Fourth interim dividend - Rs. 5.00 per share paid on 22/01/2016		
Net dividend	(6,988,113)	
Dividend tax	(776,457)	
		(7,764,570)
Write back of unclaimed dividends		10,884
Re-measurement of Plan Asset		(83,415)
<b>Balance carried forward to 2016</b>		<b>1,012,248</b>

# REPORT OF THE DIRECTORS

Interim dividends of Rs. 7,765 million have been paid from current year profits after tax of Rs. 10,634 million.

## CAPITAL EXPENDITURE

The Company capitalised a sum of Rs. 561 million in property plant and equipment in its productivity improvement drive. The movements in property, plant and equipment for the year are shown in Note 14 to the financial statements.

## DONATIONS

Included in the current years result is a sum of Rs. 47 million on Corporate Social Investments shown in Note 9 to the financial statements.

## CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

Contingent Liabilities and Commitments as at the year-end are disclosed in Notes 26 and 27 to the financial statements.

## DIRECTORATE

The names of the Directors are disclosed in pages 20 to 23 of the Annual Report.

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

## Market Statistics – At 31 December

	2015	2014	Growth
★ No. of shares	187,323,751	187,323,751	-
★ Earnings per share - Rs.	56.77	46.01	23%
★ Net assets per share - Rs.	15.40	20.81	(26%)
★ Market price per share - Rs.	992.50	1,060.10	(6%)
★ Price earnings ratio	17.48	23.04	(24%)
★ Dividends per share - Rs.	41.45	39.50	5%

## DIRECTORS PROPOSED FOR RE-ELECTION

In accordance with the Articles of Association of the Company, it was resolved, that Mr. Dinesh Weerakkody and Mr. Javed Iqbal retire from the Board of Directors by rotation at the Annual General Meeting and being eligible, be proposed for re-election.

Mr. Shigeki Endo and Mr. Michael Koest who were appointed to the Board of Directors since last Annual General Meeting also retire and being eligible, be proposed for re-election in terms of Articles of Association of the Company.

## DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS

Directors' interests in contracts and related party transactions are disclosed in Note 29 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.

## DIRECTOR'S SHAREHOLDING

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

31 December	2015	2014
Mr. Susantha Ratnayake	644	644
<b>Total</b>	<b>644</b>	<b>644</b>

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, MD and Chief Executive Officer's Statement and Finance Director's Review.

## RESERVES

Total reserves as at 31 December 2015 comprise of revenue reserves amounting to Rs. 1,012 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. 693 million.

## MAJOR SHAREHOLDINGS

The 20 major shareholders and percentages are disclosed on page 138.

## EMPLOYEE SHARE OWNERSHIP PLANS

The Company has no share ownership plans as at 31 December 2015. However, the BAT group through an International Executive Incentive Scheme ("IEIS") offers 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 split into two components. Half the award is paid at the date of grant based on the share price of the BAT Plc share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

## 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 Company has proposed the change of statutory auditors to be in line with the Group's (British American Tobacco Plc) requirements and to move to their (BAT) group auditor. Hence, a resolution will be submitted at the forthcoming meeting, proposing Messrs. KPMG to be appointed as auditors of the Company for the financial year ending 31 December 2016.



Felicio Ferraz  
MD and Chief Executive Officer



Shigeki Endo  
Finance Director

18 February 2016

# 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:

- i. A Statement of Financial Position, which presents a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of the financial year, and which comply with the requirements of the Act; and
- ii. A Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flow and Statement of Changes in Equity which present a true and fair view of the profit and loss of the Company and its subsidiaries for the financial year.

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

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

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

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company and the 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 of the Group and in this regard to give proper consideration to the establishment of appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

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

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

The Audit Committee of our Company meets periodically with 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 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 and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the balance sheet date have been paid or, where relevant provided for, except as specified in Note 26 to the financial statements covering contingent liability.



Susantha Ratnayake  
Chairman



Felicio Ferraz  
MD and Chief Executive Officer

18 February 2016

# REPORT OF THE AUDIT COMMITTEE

## **THE ROLE OF THE AUDIT COMMITTEE**

The role of the Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance report on pages from 33 to 34.

## **COMPOSITION OF THE AUDIT COMMITTEE**

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

### **The members of the Audit Committee:**

Ms. Premila Perera (Chairperson)  
Mr. Dinesh Weerakkody  
Mr. Kenneth Allen

The MD and Chief Executive Officer, 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.

## **TERMS OF REFERENCE**

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

### **Financial Statements**

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

### **Internal Control and Business Risks**

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

### **Internal Audit**

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

### **External Audit**

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

## **MEETINGS**

The Committee met twice during the year. Attendance by the committee members at each of these meetings is given in the table on page 31 of the annual report. All invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

## **ACTIVITIES**

The Committee carried out the following activities:

### **Managing Risks**

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

### **Internal Audit**

The Committee approved the internal audit plan for 2015 at the beginning of the year and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored. The committee also approved the 2016 review plan and focused on the resource requirements and future plans pertaining to internal audit.

# REPORT OF THE AUDIT COMMITTEE

## Internal Controls

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

## External Audit

The Committee reviewed the independence of the external auditor (PwC), the scope of audit for 2015 and fees payable.

The Management Letter issued by the external auditor (PwC) highlighting opportunities for improvement which were observed during the course of the audit, were reviewed by the Committee. The letter of representation issued to the external Auditor was also reviewed by the Committee to ensure that the representations made were consistent with the understanding of the committee, as to the Company's operations and plans.

## Appointment of Group Auditors

In pursuance of the decision of British American Tobacco Plc to appoint KPMG as the Group external auditor, effective from the 2015 financial year, and for all entities in the group to ensure transition of the external audit to KPMG by 2016, the Committee recommended to the Board of Directors, the appointment of KPMG in Sri Lanka as the external auditor for the financial year ending 31 December 2016.

## Financial Reporting

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

## Good Governance

A Statement of Business Conduct (SOBC) is submitted each year by the management to the Group, to identify and report incidents of non-compliance and whistle blowing incidents. The Committee was satisfied that all whistle blowing incidents 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 PricewaterhouseCoopers, the outgoing external auditors and staff of the internal audit, finance and risk management functions in assisting the Company to maintain high standards in the conduct of business, manage internal control and business risks and to prepare and present financial statements in conformity with accounting standards and best practices.



**Premila Perera (Ms.)**  
Chairperson,  
Audit Committee.

12 February 2016

## Members

Dinesh Weerakkody, Kenneth Allen

# BOARD COMPENSATION AND REMUNERATION COMMITTEE REPORT

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

The scope of the Committee includes the following:

- ✦ 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; and
- ✦ Establish and maintain an effective system of job evaluation.

The Committee met on two occasions during the year 2015. During the first meeting, the focus of was to approve competitive salary positioning based on external salary survey results to recruit and retain best local talent to feed the talent pipeline, review reward offerings for key talent group with flight risk and to ensure better link pay and non-financial

recognition to performance – greater differentiation for superior performance. In reviewing the above, functional line managers were given more responsibility in deciding the distribution of the increments within their respective functions.

The second meeting of the Committee was aimed at approving a Voluntary Separation Scheme to enable the implementation of a Business Model review exercise as part of a wider Board approval for the project and resulting redundancies of impacted staff.



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

18 February 2016

**Members**  
Premila Perera

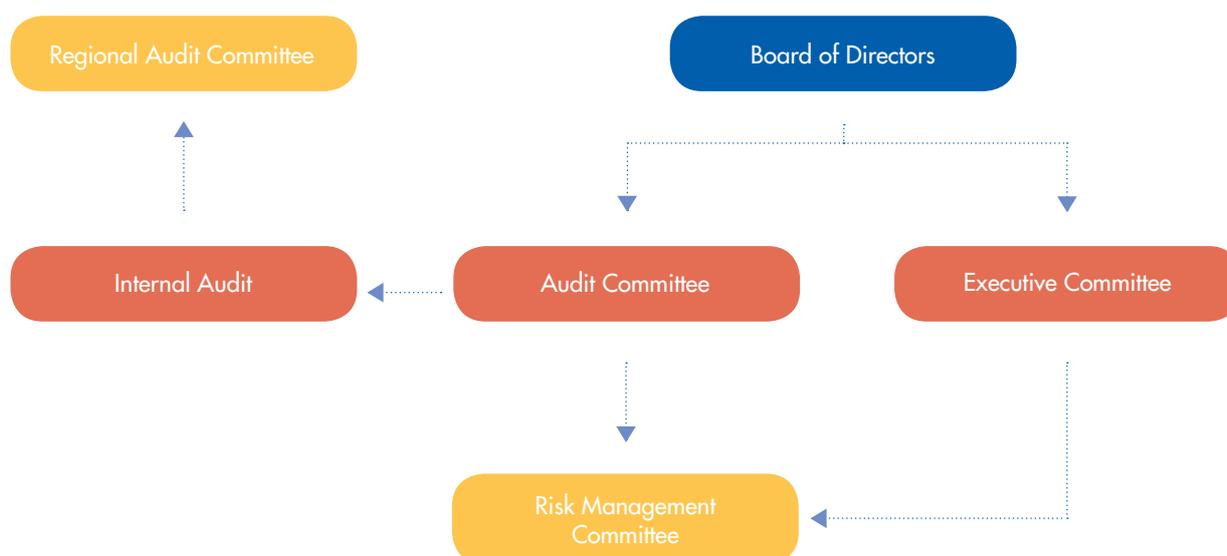
# MANAGING RISK

CTC's approach towards managing its risks is proactive and effective, permeating all levels of the organisation through defined mandates, comprehensive policy frameworks and appropriate governance structures. 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. Risk considerations are a critical input in the Company's business decisions, including the strategic planning and annual review processes. The Company's Risk Management framework is further strengthened by the international harmonisation of the Group's risk management tools and techniques, which enables the effective identification, assessment and monitoring of key risk exposures.

## 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 Audit Committee in discharging its risk management related responsibilities and the 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.

## RISK GOVERNANCE STRUCTURE



# THE CORE OF EXCELLENCE

## MANAGEMENT APPROACH



**RISK IDENTIFICATION** - Financial and non-financial risks are identified at a functional level, with inputs from relevant employees. This is done through team discussions and brainstorming sessions which facilitate value addition. The identified risks are reviewed for completeness by the RMC on a regular basis and reported to the Audit Committee.

**ASSESSMENT AND EVALUATION** - Risk registers, which are standardised across the 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 the Board and the Audit Committee.

**RISK MANAGEMENT** - Based on the risk scores derived from the risk register, the respective functions formulate strategies to curtail and mitigate these risk exposures. Responsibility for managing each identified risk is allocated to the head of each function (risk owners), who 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 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, 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.

## Board of Directors



## Audit Committee



## Risk Management Committee



Review

Analysis

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

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

## KEY RISK FACTORS

### Competition from illicit trade

Impact	Likelihood	Status
 Increased	 Increased	 Risk management mechanisms in place

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. The expansion of the illegal market is also an unintended consequence of regulation such as pictorial health warnings and display bans. In Sri Lanka, the illegal market is estimated to account for 1.5% of the market, approximately Rs. 1.5 billion in value.

#### Potential impact on CTC

- ★ Impact on volumes and profit performance due to drop in market share
- ★ Violation of Intellectual Property Rights

#### Mitigating actions

- ★ Established an effective Anti-Illicit trade (AIT) strategy aligned to the Group's AIT strategy.
- ★ Maintain an AIT reporting hotline and information obtained thereof is directed to the relevant law enforcement authorities including the Sri Lanka Police and Sri Lanka Customs and Excise Department for appropriate action.
- ★ Continued engagement with relevant authorities and stakeholders

### Excise and taxes

Impact	Likelihood	Status
 Increased	 Increased	 Risk management mechanisms in place

Excise duties and taxes on tobacco products are a key source of Government revenue, and over the past 10 years excise duties on legally manufactured cigarettes have increased by around 250%. The resultant price increase of our products has continued to impact consumer affordability and sales volumes.

#### Potential impact on CTC

- ★ Decline in legal industry volumes due to accelerated contraction in market

- ★ Growth of illicit trade

#### Mitigating actions

- ★ Formal pricing and excise strategy including contingency plans
- ★ Continuous engagement with the relevant authorities
- ★ Portfolio review to ensure appropriate balance and coverage across price segments

**Unlawful enforcement of Tobacco regulation**

Impact	Likelihood	Status
 Increased	 Increased	 Risk management mechanisms in place

CTC operates under a stringent regulatory environment. In certain circumstances regulations have been misinterpreted, leading to unlawful enforcement. As a responsible corporate citizen, CTC ensures full compliance with regulations at all levels. The Company has also taken steps to create and enhance the awareness of its trade partners on all applicable regulations.

**Potential impacts on CTC**

- ★ Loss of volume through consumer inconvenience and loss of handlers
- ★ Legal cost in relation to prosecutions
- ★ Undue advantage for illicit products

**Mitigating actions**

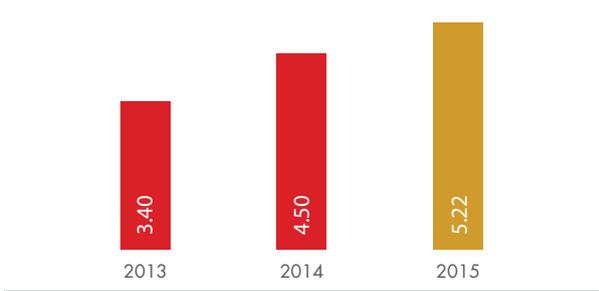
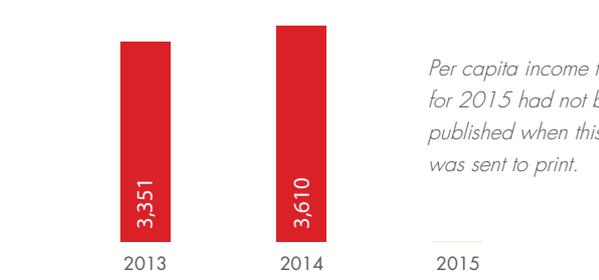
- ★ Forecast and monitor regulatory changes at all levels
- ★ Conduct regulatory risk assessments
- ★ Maintain consistent dialogue with Government and relevant regulatory authorities
- ★ Full legal readiness for potential litigation

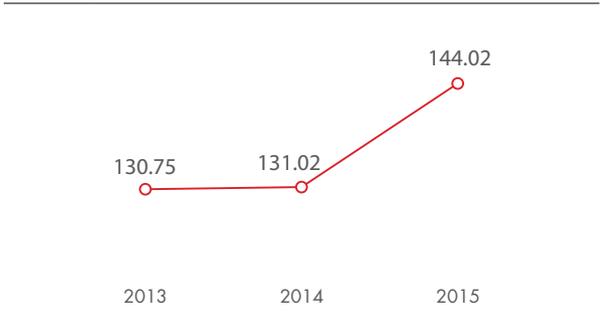
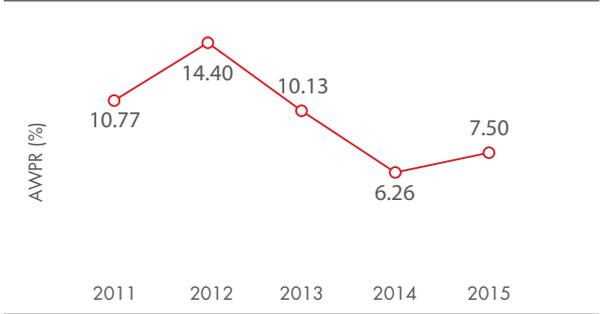
# INDUSTRY INSIGHTS AND CONTEXTUAL TRENDS

## ECONOMIC ENVIRONMENT

### Material Issues in this section

- ★ Tobacco regulations
- ★ Illicit trade
- ★ Harm reduction

Economic Indicator	Impact on CTC								
<p><b>GDP GROWTH</b></p> <p>GDP growth was 5.2 % up to September 2015, driven by strong growth in the services sector and a recovery in agricultural and industrial output.</p> <p><b>GDP Growth (%)</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>GDP Growth (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>3.40</td> </tr> <tr> <td>2014</td> <td>4.50</td> </tr> <tr> <td>2015</td> <td>5.22</td> </tr> </tbody> </table> <p>(As per rebased estimates of the Dept. of Census and Statistics) Source: Central Bank of Sri Lanka (CBSL), and the rebased estimates of the Department, of Census and Statistics.</p>	Year	GDP Growth (%)	2013	3.40	2014	4.50	2015	5.22	<p>Conducive macro-economic fundamentals and improved consumer confidence indicates higher demand for consumer goods.</p>
Year	GDP Growth (%)								
2013	3.40								
2014	4.50								
2015	5.22								
<p><b>PER CAPITA INCOME</b></p> <p>Consumer purchasing power widened, contributed by a rise in public wages and salaries, and the downward revision of fuel prices as well as several other key consumer goods.</p> <p><b>Per Capita Income (USD)</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Per Capita Income (USD)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>3,351</td> </tr> <tr> <td>2014</td> <td>3,610</td> </tr> <tr> <td>2015</td> <td>-</td> </tr> </tbody> </table> <p><i>Per capita income figures for 2015 had not been published when this report was sent to print.</i></p> <p>Source: Central Bank of Sri Lanka.</p>	Year	Per Capita Income (USD)	2013	3,351	2014	3,610	2015	-	<p>Increasing disposable income and the resultant rise in purchasing power indicates higher demand for consumer goods.</p>
Year	Per Capita Income (USD)								
2013	3,351								
2014	3,610								
2015	-								

Economic Indicator	Impact on CTC																				
<p><b>EXCHANGE RATES</b></p> <p>The Rupee depreciated by around 10% in 2015, as expectations of an interest rate hike in US and higher import demand prompted an outflow of funds.</p> <p><b>Exchange Rate (Rs./USD)</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>Exchange Rate (Rs./USD)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>130.75</td> </tr> <tr> <td>2014</td> <td>131.02</td> </tr> <tr> <td>2015</td> <td>144.02</td> </tr> </tbody> </table> <p>Source: Central Bank of Sri Lanka.</p>	Year	Exchange Rate (Rs./USD)	2013	130.75	2014	131.02	2015	144.02	<p>Depreciation of the local currency increases the cost of imported packaging materials and machinery and equipment although it is beneficial to the export arm of our business to a much lesser extent.</p>												
Year	Exchange Rate (Rs./USD)																				
2013	130.75																				
2014	131.02																				
2015	144.02																				
<p><b>INFLATION</b></p> <p>Inflation declined as a result of a fall in energy prices, downward revision of several key consumer items and low commodity prices in the global markets.</p> <p><b>Annual Average</b></p>  <table border="1"> <thead> <tr> <th>Month</th> <th>Annual average inflation (%)</th> </tr> </thead> <tbody> <tr> <td>Jan</td> <td>3.2</td> </tr> <tr> <td>Feb</td> <td>2.8</td> </tr> <tr> <td>Mar</td> <td>2.5</td> </tr> <tr> <td>Apr</td> <td>2.2</td> </tr> <tr> <td>May</td> <td>2.0</td> </tr> <tr> <td>Jun</td> <td>1.8</td> </tr> <tr> <td>Jul</td> <td>1.5</td> </tr> <tr> <td>Aug</td> <td>1.2</td> </tr> <tr> <td>Sep</td> <td>0.7</td> </tr> </tbody> </table> <p>Source: Central Bank of Sri Lanka.</p>	Month	Annual average inflation (%)	Jan	3.2	Feb	2.8	Mar	2.5	Apr	2.2	May	2.0	Jun	1.8	Jul	1.5	Aug	1.2	Sep	0.7	<p>Lower inflation fuels higher consumption and indicates increased demand for consumer goods.</p>
Month	Annual average inflation (%)																				
Jan	3.2																				
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<p><b>INTEREST RATES</b></p> <p>CBSL maintained its accommodative monetary policy stance stimulating credit growth to the private sector and encouraging investment.</p> <p><b>Interest Rates (2015)</b></p>  <table border="1"> <thead> <tr> <th>Year</th> <th>AWPR (%)</th> </tr> </thead> <tbody> <tr> <td>2011</td> <td>10.77</td> </tr> <tr> <td>2012</td> <td>14.40</td> </tr> <tr> <td>2013</td> <td>10.13</td> </tr> <tr> <td>2014</td> <td>6.26</td> </tr> <tr> <td>2015</td> <td>7.50</td> </tr> </tbody> </table> <p>AWPR: Average Weighted Prime Lending Rate Source: Central Bank of Sri Lanka.</p>	Year	AWPR (%)	2011	10.77	2012	14.40	2013	10.13	2014	6.26	2015	7.50	<p>Given the Company's debt-free balance sheet the impact of the decline in interest rates is minimal. This is included merely to indicate the borrowing cost in case the need arises or it is deemed strategically desirable to do so to meet future funding requirements.</p>								
Year	AWPR (%)																				
2011	10.77																				
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# INDUSTRY INSIGHTS AND CONTEXTUAL TRENDS

## TOBACCO'S ECONOMIC CONTRIBUTION

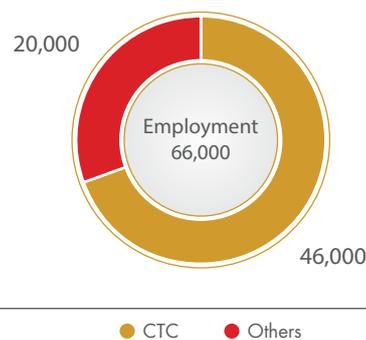
The main constituents of Sri Lanka's tobacco industry are factory manufactured cigarettes (FMC), beedi, cigars and chewing tobacco. CTC is the only legal manufacturer of cigarettes in the country and utilises locally grown tobacco leaf for its production whereas beedi is a cottage industry in which sticks are hand rolled and wrapped in imported Tendu leaves. The tobacco industry is estimated to generate employment to over 66,000 individuals who are engaged in farming, manufacturing and retailing whilst indirectly supporting over 261,000 livelihoods. Tobacco taxes provide a major source of revenue for almost every government in the world and are commonly considered as a strong source of potential income when national budgets are under pressure. As a Group, BAT contributed approximately £30 billion to governments in excise and other taxes in 2014 which amounted to eight times the Group's pre-tax profit. In Sri Lanka, CTC is the largest individual contributor to the National Exchequer in taxes and revenues generating 7% (Rs. 91.6 billion) of the state's total tax income in 2015.

Almost 100% of the tobacco used in CTC's manufacturing process is grown locally by rural farmers. The entire land extent used for tobacco farming in Sri Lanka amounts to less than 0.01% of the country's total arable land, while the water requirement for tobacco farming is 1/7th of what is used for paddy. Farmers opt to grow tobacco as it provides an alternative source of income during the 'Yala' season when water required for paddy cultivation is unavailable.

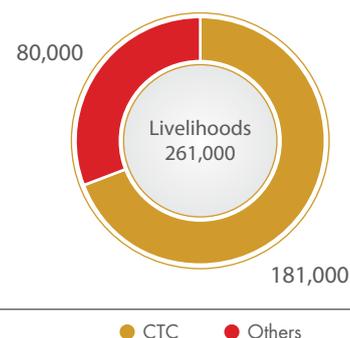
## TOBACCO REGULATION

Globally, regulation of the tobacco industry has continued to increase, proposed and driven by the World Health Organisation's (WHO's) Framework Convention on Tobacco Control (FCTC). In Sri Lanka, excise duties on legally manufactured cigarettes have escalated by more than 250% over the last 10 years resulting in increasing retail prices. Sudden increases in excise duties can distort competition and commonly results in consumers shifting to cheaper more harmful alternatives and illegally trafficked products. Regulations on cigarette pack labelling continue to increase in stringency, with many countries requiring pictorial health warnings and increasing warning sizes. Complying with the new legislation on pictorial health warnings for cigarette packs in Sri Lanka, CTC ensures that 80% of the top surface area of both the front and back of the pack carries the prescribed pictorial health warnings.

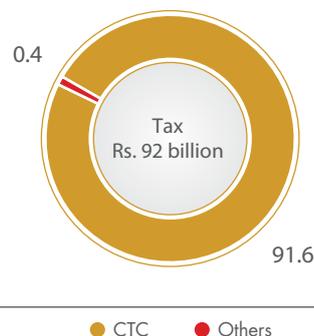
### Employment



### Livelihoods



### Tax

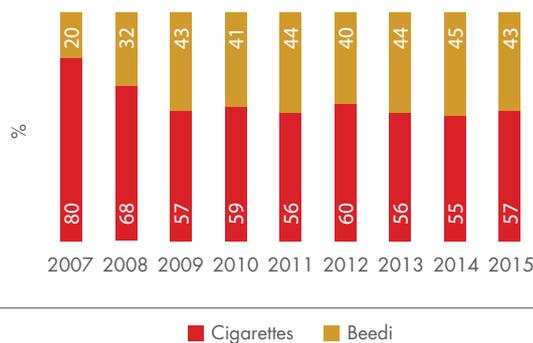


## IMPLICATIONS OF BEEDI

The rapid expansion of beedi production which remains an under-regulated industry in the country has resulted in a significant increase in market share over the past few years. Consistent increases in excise duties applicable to the legal cigarette industry have resulted in cigarette prices more than tripling whereas beedi prices have remained relatively unchanged causing notable shifts in consumption patterns. By 2015 beedi accounted for 43% of the market, compared to just 20% in 2007.

In a bid to address these pressures we have focused on expanding our rural distribution networks and the value for money portfolio. However prohibitive pricing applicable to the legal cigarette industry continues to drive shifts in demand towards beedi which are taxed at nominal rates thereby leading to a reduction in tobacco revenue to the Government.

### Shift in Tobacco Consumption Pattern



## IMPLICATIONS OF ILLICIT TRADING

Uncompetitive pricing on legally manufactured cigarettes has also led to an increased prevalence of illicit tobacco products in the country. Illegal tobacco products are estimated to hold a market share of less than 2%, translating to a value of approximately Rs. 1.5 billion. The key implications of this concerning trend include consumption of sub-standard products, loss of potential Government revenue, non-compliance to applicable laws and regulations within the country and non-adherence to industry quality standards resulting in increased health risks to consumers.

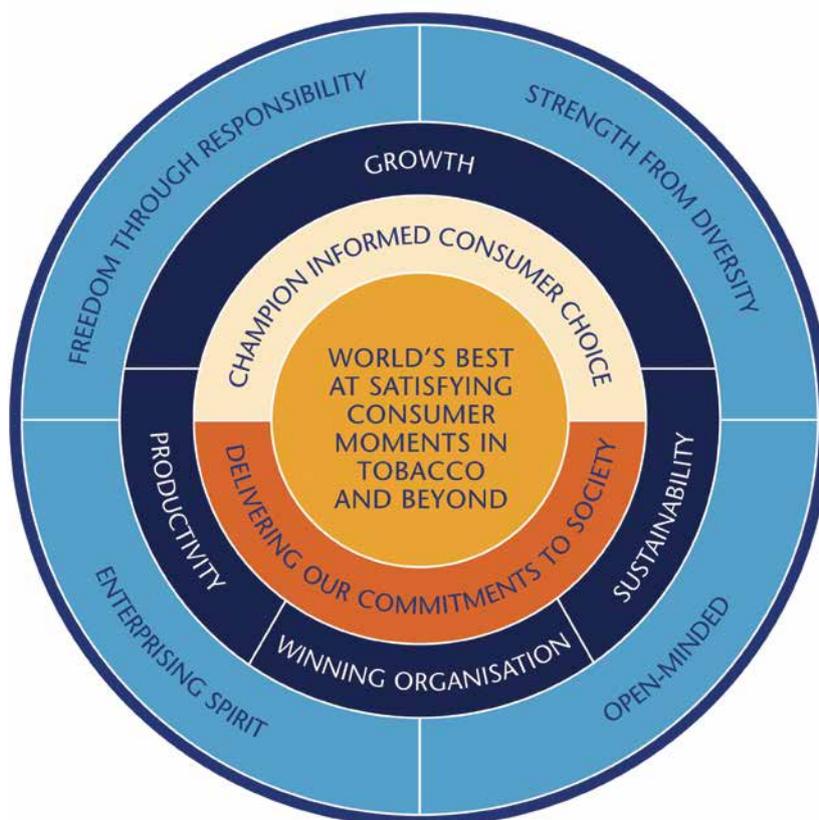
CTC has continued to support law enforcement authorities in their efforts to curb illicit trading and prevent sub-standard products from entering the local market. In 2015, law enforcement authorities carried out 1,700 raids resulting in the detection, confiscation and destruction of 21.6 million sticks of illicit cigarettes valued at a total of Rs. 648 million, preventing a potential loss of Rs. 530 million in Government revenue.

## NEXT GENERATION PRODUCTS

As a Group, BAT understands that the sustainability of our business relies on working towards reducing the health related risks of tobacco. Therefore offering a range of less risky tobacco and nicotine-based alternatives is a top priority for the Group's sustainability strategy. The scientific and public health community are now increasingly advocating harm reduction as the way forward for helping the 1.3 billion people worldwide who choose to smoke despite the known health risks. Over the past decade, the Group has made substantial investments in research to create less risky products and today BAT offers adult smokers a range of alternatives to conventional cigarettes, such as e-cigarettes. BAT publishes details of its scientific research programmes on its dedicated website, [www.bat-science.com](http://www.bat-science.com), submit the results of studies to peer-reviewed journals, and present widely at leading international conferences.

# OUR VISION AND STRATEGY

CTC's approach towards value creation is aligned to the overall Vision, Mission and Strategic Pillars of the Group. Whilst the foundation upon which our strategy is built has been in place for several years, we continue to reinvent ourselves in all four strategic areas by constantly reviewing and improving our ways of thinking and working. The four strategic priorities of Growth, Productivity, Winning Organisation and Sustainability also embody the Company's approach towards creating value for its key stakeholders. The strategic priority of Sustainability is governed and managed through the Company's formalised sustainability agenda, which is described subsequently.



# THE CORE OF EXCELLENCE

## THE SIX STRATEGIC IMPERATIVES



## MUST DO'S

The Must Do's provide a blueprint for employee behaviour across all subsidiaries of the Group and is an integral part of our organisational culture and overall approach to work.



# OUR VISION AND STRATEGY

## THE SUSTAINABILITY AGENDA

First developed by the Group in 2007, our sustainability agenda is continuously reviewed and refined to reflect changes in the industry landscape and stakeholder concerns.

The three key pillars of our sustainability strategy as depicted below were identified through a detailed materiality assessment as having the greatest significance to our stakeholders and business.

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

**Sustainable Agriculture and Farmer Livelihoods**



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.

**Harm Reduction**



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

**Corporate Behaviour**



## DELIVERING ON OUR STRATEGY

Strategic Pillar	KPI	Performance	Page Reference for Discussion
<b>Growth</b> Developing brands, innovations and new products to meet consumers' evolving needs	Net turnover growth	20%	62
	Earnings per share	Rs. 56.77	62
<b>Productivity</b> Effectively deploying resources to increase profits and generate funds	Profit from operations	Rs. 17.5 billion	63
	Operating margin	67%	62
<b>Winning Organisation</b> Great people, great teams, great place to work	Employee turnover	7.2%	04
	No. of injuries/accidents	Zero	82
	Female representation	17 %	78
<b>Sustainability</b> Ensuring a sustainable business that meets stakeholders' expectations	Emission intensity	0.68 tCO <sub>2</sub> e/MCE	05
	Energy intensity	7.49 gi/MCE	95
	Water intensity	7.15 CuM/MCE	97
	Waste recycled	95%	97

Note: tCO<sub>2</sub>e (Tonnes of carbon dioxide)  
MCE (Million cigarette equivalent)

Detailed discussion on the Company's strategic performance is provided in the Value Creation Report



Target achieved



Target not achieved

# VALUE CREATION REPORT

OUR VALUE CREATION REPORT PROVIDES A COMPREHENSIVE ANALYSIS OF THE CAPITALS THAT ARE INPUT TO CTC'S BUSINESS MODEL, HOW THEY ARE ALTERED DURING THE VALUE CREATION PROCESS AND THE ECONOMIC, SOCIAL AND ENVIRONMENTAL IMPACTS OF THE COMPANY'S ACTIVITIES. THE CAPITALS HAVE BEEN DEFINED IN LINE WITH THE GUIDELINES PRESCRIBED BY THE INTEGRATED REPORTING FRAMEWORK ISSUED BY THE IIRC AND IS STRUCTURED AS FOLLOWS.



# VALUE CREATION REPORT

## FINANCE DIRECTORS REVIEW



### Material Issues in this section

- ✦ Economic Performance
- ✦ Excise and Tax

GRI disclosures: G4-EC1

centric. Alignment to the key pillars of our strategy – growth, productivity, sustainability, and winning organisation enabled us to deliver a top line growth of 21% to Rs. 106.5 billion and a 23% growth in profit after tax to Rs. 10.6 billion in 2015, a reflection of our sustainable high performance.

### Impact of External Factors

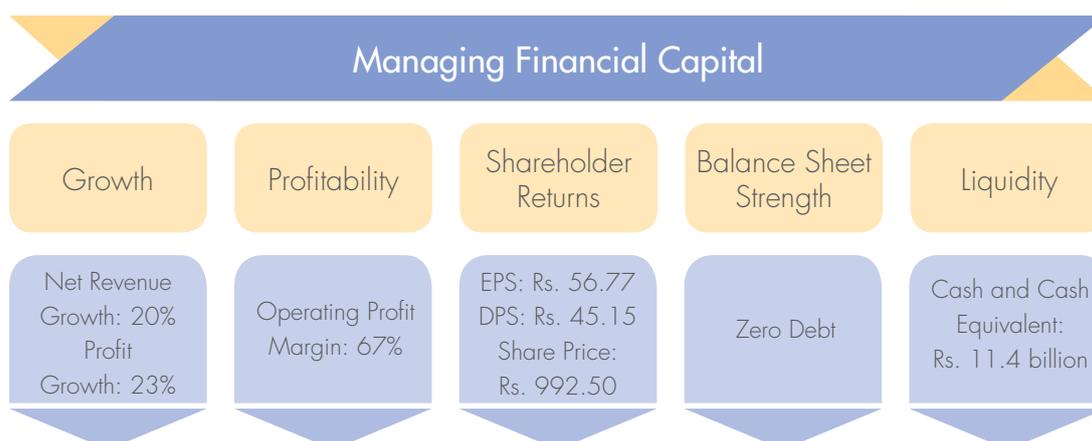
Favourable macro-economic conditions and the resultant increase in personal disposable incomes of Sri Lankan consumers augured well for CTC. Volumes showed signs of recovery for the first time in three years, reflecting improved consumer confidence. Excise led price increases in October 2014 and October 2015 resulted in further widening the gap between the price of legally manufactured cigarettes and beedi, which continue to be under-regulated and taxed at lower rates.

### Revenue and Profit From Operations

The strong financial performance in 2015 is a result of high pricing driven by excise led price increases experienced in October 2014 and October 2015 coupled with a recovery of volumes during the year in the backdrop of better consumer sentiments. The Company's continuous commitment to product quality, driving value through a more premium product mix spearheaded by our mainstream brand John Player Gold Leaf (JPGl) and Dunhill SWITCH in the premium segment,

### Overview

CTC is committed to delivering long term sustainable shareholder value, despite short term challenges to the business. As a member of the most international tobacco company in the world – the British American Tobacco Group, we continued to focus on the Group's strategy, the 'BAT Way', which has evolved over the years to become more consumer-



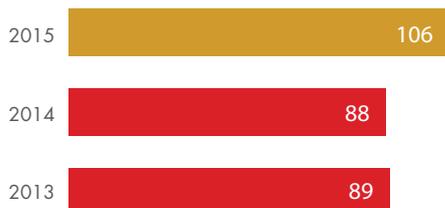
introduction of leaner processes across the organisation together with productivity and smart cost management initiatives undertaken during the year enabled us to grow profit before tax by 24% to Rs. 18.1 billion.

The above results are noteworthy in the face of several challenges experienced during the year. Adverse weather conditions experienced in certain parts of the country significantly impacted agricultural crops, including tobacco cultivation. 2015 also saw the implementation of 60% pictorial health warnings in January 2015 and a subsequent increase to 80% within a period of three months. Despite the short notice given, the Company successfully complied with the new regulation on time and in full. Furthermore, under-regulated tobacco products, such as beedi, which accounts for approximately 43% of the tobacco market in the country continued to pose a threat to the legal tobacco industry and its ability to deliver sustainable Government revenue.

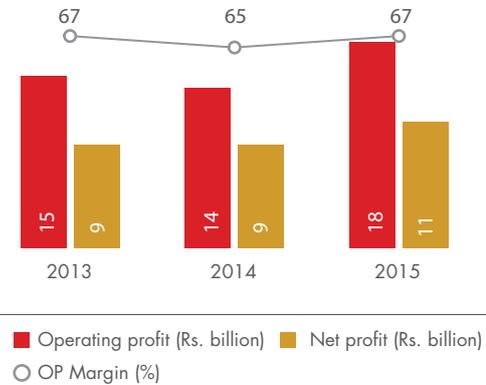
In spite of these challenges, CTC contributed Rs. 91.6 billion towards Government revenue through direct and indirect taxes including the one-off Super Gain Tax. This represents an increase of 24% against the previous financial year, once again positioning CTC as the single highest contributor to the Government's total tax revenue during 2015.

The year in review also saw raw material costs increase by 14% driven by the recovery in volumes as well as the devaluation of the Sri Lankan rupee towards the latter part of the year. The increase in raw material cost was further driven by higher prices paid to tobacco farmers, a better product mix and the increase in wrapping material prices. Furthermore, compliance to the newly introduced regulation on pictorial health warnings which increased from 60% to 80% within three months also impacted our profitability. We expect this cost to continue affecting our profits, as the regulations prescribe the images used in the warning to be replaced every six months.

## Gross Revenue Trends (Rs. billion)



## Profitability Trends



## Profitability Margins

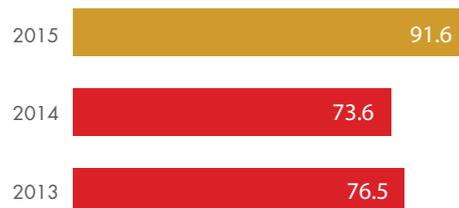
The operating profit margin improved from 65% to 67% during the year, supported by portfolio development through our global drive brands (GDBs), productivity enhancing and smart cost management initiatives, and factory rationalisation. The successful implementation of Project TaO, which enabled the harmonisation of global processes across BAT Group companies, has facilitated systematic and leaner reporting and more efficient decision making.

## Taxation

CTC's tax footprint includes special provision excise tax on cigarettes and corporate income tax. The Company's total tax contribution for the year was Rs. 91.6 billion including the one off Super Gain Tax of Rs. 3.8 billion. CTC's principles in adherence to tax regulations are as given below:

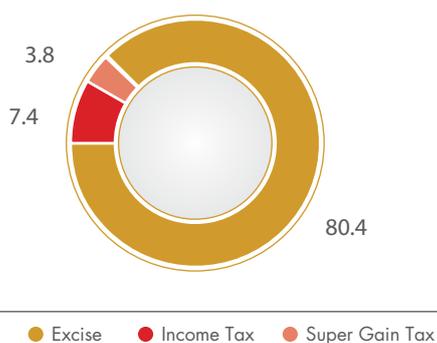
- ★ Comply with all applicable and relevant tax laws and regulations in a timely manner; and
- ★ Continue to maintain mutually beneficial, long standing relationships with tax authorities through open and transparent communications.

## Contribution to Government Revenue (Rs. billion)



# VALUE CREATION REPORT

## Tax Breakdown (Rs. billion)



## Creating Value for Shareholders

Profit before tax grew 24% to Rs. 18.1 billion reflecting improvements in the top line as a result of volume recovery together with productivity and smart cost management initiatives helping improve operating margins. Despite multiple challenges presented by the regulatory and competitive environments, the Company continued to generate sustainable value to its shareholders with earnings per share increasing 23% to Rs. 56.77.

During the year under review, dividend growth was 14%, translating to a dividend per share of Rs. 45.15. Total dividends, excluding the proposed final dividend of Rs. 3.70 per share, is Rs. 7.8 billion, amounting to 7.8% of the total value generated during the year.

The Company's share price closed the year at Rs. 992.50, from Rs. 1,060.10 the previous year, reflecting the downturn in the Colombo Stock Exchange, which saw the overall ASI declining by 5.5%. The Company continues to be a key player in the Colombo Stock Exchange as the second most valuable listed entity.

## Stockholder Value Creation

	2015	2014
Earnings per Share (Rs.)	56.77	46.01
Interim Dividend per Share (Rs.)	41.45	39.50
Net Assets per Share (Rs.)	15.40	20.81
Share Price [year-end] (Rs.)	992.50	1,060.10
Dividend Yield (%)	4.5	3.7
P/E Ratio	17.48	23.04

## Investment

In spite of the three-year decline in volumes experienced from 2012 - 2014, the Company remained committed to invest in its brands to ensure sustainable long-term returns. As a result in 2015, we saw a strong volume growth in JPGL while our most innovative product in the market - Dunhill SWITCH - continued to grow consistently. We are also encouraged by the migration of beedi consumers to our brands in the backdrop of higher disposable incomes coupled with CTC's focus on increasing availability of its products in the market.

During the year, JPGL retained its position as the market leader and the most valuable brand in our portfolio. We continued to invest in JPGL with the celebration of the brand's existence in Sri Lanka for 50 years and re-launched JPGL Special during the year. The Company initiated tactical activities behind Dunhill to strengthen its position as a premium and innovative brand category to record its highest volume in recent years.

We continued to improve our trade distribution model through the "Route to Market Excellence" programme introduced in 2014. In 2015, we implemented the sales force automation system together with our valued business partners to increase their efficiency and effectiveness. We also expanded "Abhisheka" the flagship trade loyalty scheme to cover the wholesale network with the objective of retaining volume base and supported our trade partners to construct different smoking solutions in order to enhance services and convenience to our consumers.

Capital investments in property, plant and equipment in 2015 amounted to Rs. 561 million. Capital investments are mainly related to the replacement of obsolete machinery and upgrading of existing machinery to enhance productivity and improve product quality. In 2015, we made key investment to JPGL mainstream machinery and carried out plant improvements which accounted for significant efficiency improvement.

### Liquidity and Working Capital

The Company had another strong year in which it delivered improved cash flow results with no debt funding.

Higher profit and effective working capital management ensured a 4% growth in net cash generated from operating activities despite paying a one-off Super Gain Tax of Rs. 3.8 billion, excluding which the Company's net cash position would have grown by 41%.

Distributor credit exposure remained fully covered through bank guarantees. Out of the 16 distributors, 9 are under a distributor collection scheme while the remaining 6 are under a distributor financing scheme provided by our international core banks.

### Capital Structure

The balance sheet continued to be debt-free by end December 2015. Despite strong growth in profitability the Company's shareholders' funds declined to Rs. 2.89 billion from Rs. 3.90 billion in 2014 due to the payment of Super Gain Tax of Rs. 3.81 billion. The tax was paid in three equal instalments during the year and in accordance with the Finance Act No. 10 of 2015, is to be deemed as an expenditure relating to the year of assessment 2013/2014 and be made as an adjustment to the opening retained earnings.

	2015	2014
Total Equity (Rs. billion)	2.9	3.9
Equity to Total Assets	15.5%	25.2%
Debt to Equity	nil	nil
Interest Coverage	N/A	N/A



**Shigeki Endo**  
Finance Director

18 February 2016

# VALUE CREATION REPORT

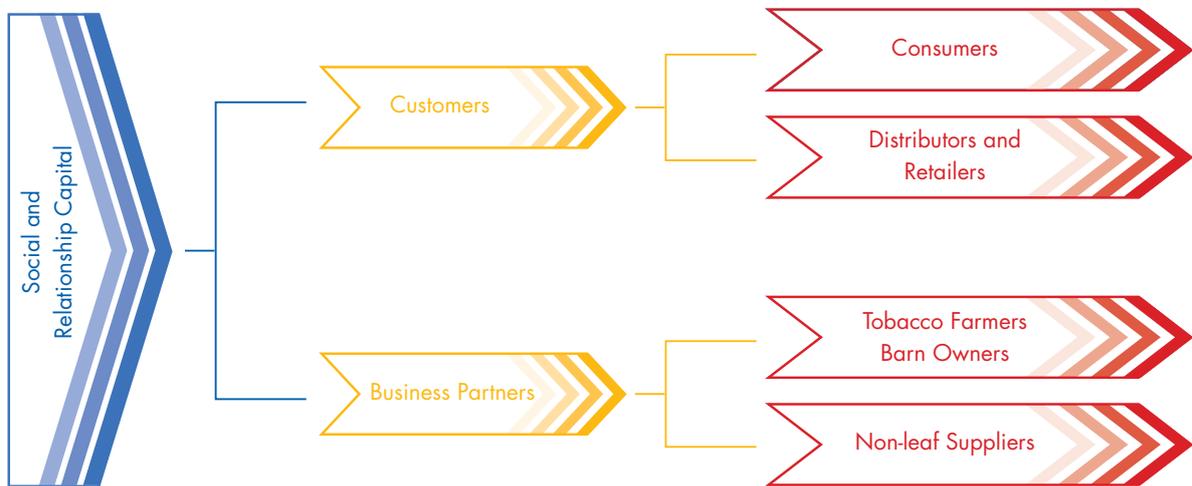
## SOCIAL AND RELATIONSHIP CAPITAL

Shared value has long underpinned our approach to sustainability. As an organisation operating in a controversial sector we continuously strive to strengthen our business relationships, understand stakeholder concerns and identify potential areas for value creation. Our Relationship Capital thus forms a crucial component of our value creation process and is composed of our customers and business partners as depicted below.

### Material Issues in this section

- ★ Harm reduction
- ★ Marketing practices/Marketing communication
- ★ Youth smoking prevention
- ★ Customer health and safety
- ★ Product labelling
- ★ Product responsibility-compliance

GRI disclosures: PR2, PR3, PR4, PR7



### Our Customers - Consumers

We are committed to addressing the negative impacts of our business and considering the health risks attributed to smoking, harm reduction has continued to be a key priority for

the Group. Other aspects of our consumer value proposition include responsible marketing, consumer engagement, combating tobacco trafficking, youth smoking prevention and compliance to product labelling requirements.

### The Group Approach

Group Management Approach			
Investing in world-class research, being transparent about our science and actively contributing to the evidence base for evaluating the risk profile of different products.	Developing the next generation of less risky products.	Promoting regulation that has high consumer safety and quality standards while encouraging innovation growth and availability.	Responsible marketing of our products to adult smokers or consumers of other nicotine products.

## Consumer Engagement

The NATA Act prevents all direct engagement with end-consumers, including any form of advertising, promotion and sponsorship. Engagement also occurs through our distributors who provide an effective platform for communication with our adult consumers. Furthermore, a dedicated hotline enables adult consumers to report their grievances and concerns.

## Harm Reduction

Tobacco harm reduction centres on providing a choice of viable, less risky alternatives for adults who choose to smoke. Our main shareholder, BAT works pro-actively with health

experts, governments and regulators to make harm reduction part of a progressive approach to public health policy and has over the past three years invested significantly in research and development focused on harm reduction. All our products are assessed for improvements in health and safety aspects.

During the year, there were no incidents of non-compliance with regulations or voluntary codes concerning the health and safety impacts of our products or the provision and use of products.

## BAT's Research Excellence

-  More than £480 million invested in R&D in innovative tobacco and nicotine products over the last 3 years.
-  Over 100 research papers published in peer reviewed journals over the last 5 years.
-  Employ hundreds of scientists in many disciplines in researching less risky tobacco and nicotine products.
-  1st tobacco company to have a nicotine product licensed as a medicine.
-  1st international tobacco company to launch an e-cigarette.

# VALUE CREATION REPORT

## Responsible Marketing

Formalised processes are in place to ensure that we market our products only to adults above the age of 21. We are also committed to providing as much meaningful information as possible pertaining to the different risk profiles of our

We will not mislead about the risks of smoking.

**Truthful** 

We will only market our products to adult smokers.

**Targeted** 

It should always be clear to our consumers that our advertising originates from a tobacco company and that it is intended to promote the sale of our tobacco products.

**Transparent** 

We will not seek to influence the consumer's decision about whether or not to smoke, or how much to smoke.

**Trusted** 

products, which can enable consumers to make informed decisions. CTC's marketing communications are governed by BAT's International Marketing Principles (IMP) which are in some instances more restrictive than the NATA Act and ensure that all our marketing activities encompass the following key characteristics.

## Product and Service Labelling

The packaging of our products contains a text health warning and the TAR and Nicotine content, printed in all three languages. In 2014, the Government implemented new regulations pertaining to the labelling of cigarette packs which requires a minimum 60% of the top surface area of both the front and back of the pack to be represented by pictorial health warnings. Subsequent amendments to the regulation in early 2015 saw this increased to 80%. Although the marketing team was challenged with implementing this at short notice, we fully complied with the requirement by June 2015, well within the stipulated time prescribed by the Government. All our products are subject to these labelling requirements, and during the year under review there were no instances of prosecutions or findings of non-compliance to this regulation.

## Youth Smoking Prevention

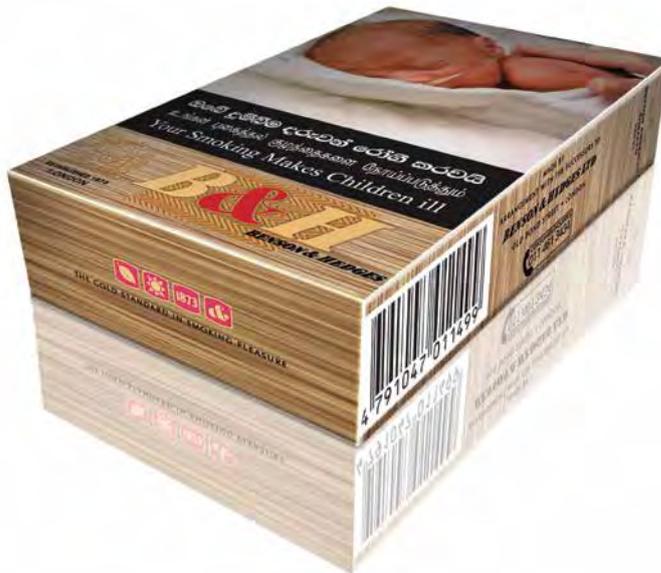
Sri Lanka has the highest minimum age of 21 for cigarette sale in the South Asian region. Aligned with the Group's IMP of preventing under-age smoking, we support our retailers and traders to conduct youth smoking prevention activities on an

ongoing basis. During the year, we reached over 50,000 retailers with such campaigns by raising awareness on existing laws, providing training on checking proof of identity, and supplying in-store posters and materials.

## Combating Illicit Tobacco

The increase in illegally traded cigarettes over the world continues to be a huge threat to legal businesses such as ours. Illegal tobacco serves an estimated 10%-12% of global consumption and costs governments' world over approximately \$40-\$50 billion each year in unpaid taxes. It also puts consumers at risk by flooding the market with unregulated sub-standard products. In Sri Lanka, the illicit tobacco industry is estimated to account for less than 2% of the market and is an industry worth Rs. 1.5 billion. CTC works pro-actively with law enforcement agencies to curtail the spread of illicit tobacco products; during 2015, a total of 1,700 raids were carried out by law enforcement authorities resulting in the detection, confiscation and destruction of 21.6 million sticks of illicit cigarettes valued at a total of Rs. 648 million, preventing a potential loss of Rs. 530 million in Government revenue.

# THE CORE OF EXCELLENCE



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

# VALUE CREATION REPORT

## Our Customers - Distributors and Retailers

### The Group Approach

The Group's approach is based on building mutually beneficial relationships, characterised by integrity, with our trade partners globally, regionally and locally. Our aim is not just to focus on our own goals, but to engage with senior management of partner companies for a good mutual understanding of each other's global strategies and to identify potential areas of alignment and cooperation. We also aim to offer our trade partners a comprehensive insight into consumer preferences and buying behaviour in the tobacco category.

### CTC's Distribution Network

Our network comprises of 16 exclusive distributors who supply our products to over 72,000 retailers island-wide. The services they offer and the platform they create for engagement with our end-consumers form an integral part of our Relationship Capital. Conversely, our value proposition comprises of distributor and retailer development initiatives and reward and loyalty initiatives. Mutual value creation has enabled CTC to develop long-term relationships with our network partners, of whom around 70% have been with us for more than 50 years.

#### Length of Relationships: Distributors

Total distributors	16
Relationship of 50 years and more	11
Relationship between 25-50 years	4
Relationship of less than 25 years	1

#### Distributor List

Name	Length of Relationship (Years)
Colombo	
Arunadisi Ltd	87
W.D. Paulis Appuhamy & Co.	83
Samaranayake & Co. (Pvt) Ltd.	64
Jaywardene & Sons	31
Excel Distributors (Pvt) Ltd	11

#### Material Issues in this section

- ★ Marketing practices
- ★ Retailer relationship

South	
S.U. Mohamed Hadjjar (Pvt) Ltd	84
K.M. Siyaneris (Pvt) Ltd	84
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	84
Wickramaratne Distributors (Pvt) Ltd,	29
Central	
Bibile Trading & Forwarding Agency	71
Gamani Bros Ltd	59
Ampara MPCS Ltd	51
Amirthans Distributors (Pvt) Ltd	29
North	
D.S. Gunasekera Ltd	59
G.H.A. De Silva & Co.	59
Kurunegala Merchants Ltd	49

### Trade Engagement

The Customer Voice Survey is conducted to gain insights on customer expectations and concerns with the objective of driving mutual value creation. The Survey is administered to CTC's exclusive distributors and retailers and has a broad coverage of all relevant market segments, including general trade, modern trade, hotels, restaurants and cafés among others. The feedback thus obtained forms an input in formulating retailer engagement mechanisms, trading terms and conditions, and strategies for enhancing service levels. More frequent forms of engagement include regular price communications and product and brand awareness among others.

**Distributor Staff Awards:** The Awards are held annually to acknowledge and reward the performance of our island-wide distributor staff. In 2015, over 90 awards were presented at the ceremony in recognition of the efforts of our exclusive channel partners.

# THE CORE OF EXCELLENCE



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



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

# VALUE CREATION REPORT

## Partner Development

### Training Conducted Under 'POSITIVE'

Target Audience	Number of Participants	Hours of Training
Trade Marketing Staff	35	16 Hours
Distributor Staff	400	96 Hours

During the year, our global marketing initiative 'POSITIVE' was rolled out to over 400 distributor representatives. The programme is designed to develop core competencies in marketing capabilities and was delivered through modular sessions, totalling 100 hours of training. We also launched a multi-faceted development initiative targeting both premium and second-tier retail channels. For the premium sector, we conducted a range of training initiatives targeted towards uplifting the service standards while the Hygiene Academy was launched in collaboration with Public Health Inspectors to provide training on food safety and hygiene to second-tier outlets.

**Abhisheka:** CTC's Trade Loyalty Programme, 'Abhisheka' is designed to motivate and empower high-performing retailers through facilitating a range of trade discounts and offers on a variety of products and services including consumer electronics, leasing services, hospitality and education among others. A 24-hour dedicated hotline has also been established to facilitate effective engagement with members, who are also informed of offers through regular SMS updates. By end-2015, a total of 1,600 retailers had obtained membership in 'Abhisheka'.

### Material Issues in this section

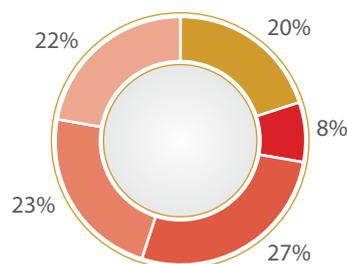
- ★ Supporting farmers
- ★ Environmental impacts of tobacco growing
- ★ Procurement practices

GRI disclosures: G4-EC1

## Our Business Partners - Tobacco Farmers and Barn Owners

CTC does not own tobacco farms or directly employ farmers; however, we are committed to uplifting the livelihoods and facilitating empowerment of over 20,000 persons who are directly and indirectly involved in the tobacco farming sector. The farmers we work with are crucial to the success of our business and enabling an environment in which they are self-sufficient and prosperous ensures that we secure a sustainable supply chain. The entirety (100%) of our tobacco leaf requirement is sourced locally. We also strive to cascade our sustainability agenda to our leaf suppliers, through the Socially Responsible Tobacco Production (SRTP) policy (refer page 151) a framework of standards setting out the minimum requirements we expect from our leaf suppliers.

## Geographical Profile of Farmers



● Matala ● Polonnaruwa ● Badulla ● Monaragala ● Kandy

### Tobacco Farming-Snapshot

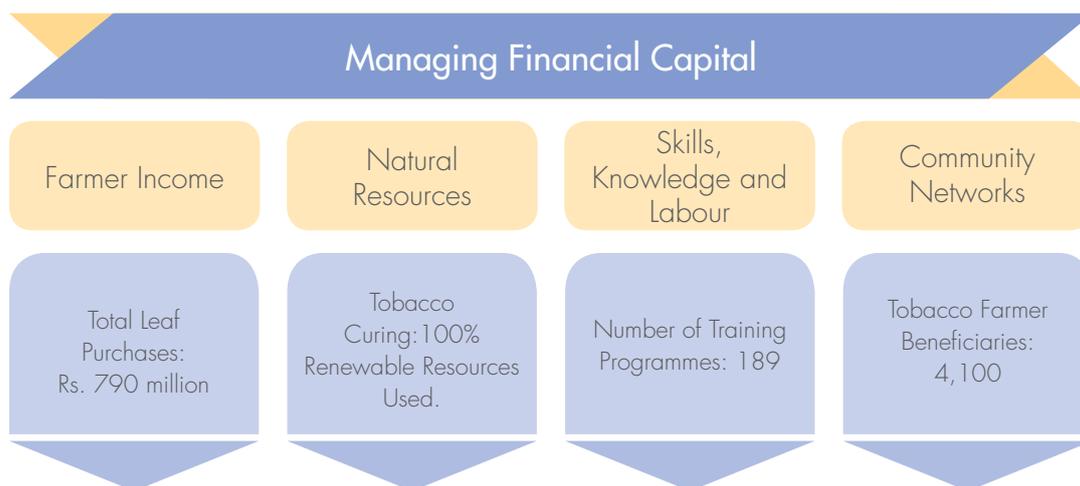
- ★ Less than 0.01% of the country's agricultural land is used for tobacco cultivation.
- ★ Tobacco cultivation requires 1/7th of the water required for paddy.
- ★ On average a farmer spends 1 season a year on tobacco farming - cultivating in 'Yala' season when water required for paddy is unavailable.
- ★ Majority of tobacco farmers are also involved in cultivation of other crops.

## The Group Approach



The Group approach described above embodies the multi-faceted value proposition that we offer to tobacco farmers, which encompass economic, social and environmental benefits.

## CTC Value Proposition

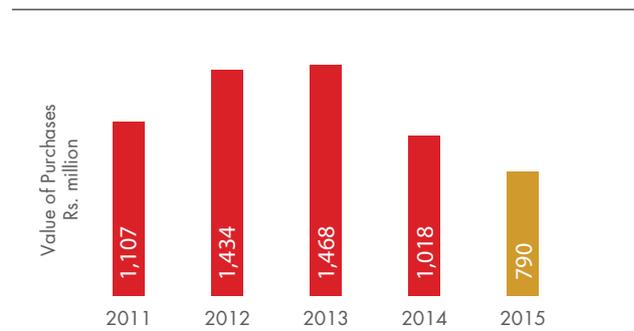


Our approach to supporting farmer livelihoods focuses on the following five key areas,

- ★ **Farmer Income:** We enable farmers to have an alternate source of income, with tobacco grown alongside a range of other crops. Tobacco farmers are guaranteed the purchase of the full crop at a competitive price at the start of each growing season. Purchases are assured through a forward contract system in which a fixed price is agreed on in collaboration with Government officials and farmer organisations.

In addition to this, farmers also receive loan facilities to help meet any financial requirements during the crop cycle, while the Company ensures that the burden on farmers to pay back the loans is minimised in the case

### Tobacco Leaf Purchases



# VALUE CREATION REPORT

of natural disasters through a phased out loan recovery programme. A 'Grower Pension Scheme' which is maintained with contributions from farmers and the Company, and managed by farmer organisations ensures a steady income for tobacco farmers after retirement.

During 2015, the total leaf purchases from farmers amounted to Rs. 790 million, a decrease of 22% compared to the previous year. The reduction is primarily attributed to crop failure due to adverse weather conditions that prevailed in 2015. However, we rescheduled loan repayment timelines and extended agriculture recovery extension programmes to minimise impact on farmers.

- ✦ **Natural Resources:** We provide guidance to ensure long-term agricultural productivity including preservation of forestry, soil health and biodiversity. Key initiatives include introduction of hybrid seeds, soil testing and propagating practices that minimise environmental degradation. We have also supported tobacco farmers to eliminate the use of fire wood in curing barns which are operated solely on paddy husk. One of the key initiatives carried out in 2015 was the automation of curing barns to further improve energy efficiency and reduce emissions.

We also support farmers to adopt soil conservation techniques such as Sloping Agricultural Land Technology (SALT) and use compost produced from tobacco dust as organic fertilizer.

The use of Integrated Pest Management (IPM) systems helps tobacco farmers reduce their dependence on chemical pesticides, further reducing the environmental impacts of tobacco cultivation.

- ✦ **Infrastructure and Resources:** We help ensure tobacco growing areas are viable places to live and work, by providing farmers with access to technology and investing in community projects. The Company introduced several measures aimed at improving yields, such as a new spacing regime and introduction of seedling trays. The pricing mechanism was revamped to reward high-yielding farmers with better prices.

The Company provides 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.

- ✦ **Skills, Knowledge and Labour:** Through our network of over 60 leaf extension officers we provide field level support to tobacco farmers to improve their productivity, yield and monitor the progress and implementation of agricultural best practices. We also provide advice and training to farmers on good agriculture practices, yield improvements and running successful businesses. In 2015, training and awareness programmes were focused towards enhancing quality of curing, grading and post-harvest management. International training tours conducted annually expose our farmers to globally accepted best practices.

Formalised processes ensure that human rights and dignity of labour are preserved whilst health and safety of farm workers are protected (refer to subsequent discussion on SRTP).

- ✦ **Community Networks:** Through the integration of 4,100 of our tobacco farmers to our flagship CSI initiative, SADP Ultra, we help to build and strengthen farmer networks and provide an effective platform for sharing best practices (refer page 88 for further discussion on SADP Ultra). We also provide scholarships to farmer's children.

## Supporting Human Rights

The Group's revised Standards of Business Conduct (SOBC) contains our new Human Rights Policy and details our commitments to eliminate child labour, stop exploitation of labour ensure 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.

## Supplier Standards

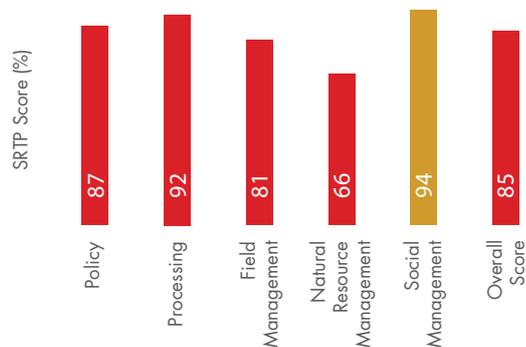
Our Social Responsibility in Tobacco Production (SRTP) programme sets out the minimum requirements we expect from our leaf suppliers and is aimed towards addressing the social and environmental issues associated with growing and processing tobacco. If minimum thresholds are not met, action plans are put in place and failure to comply with these

could result in discontinuation of sourcing from these farmers. The programme is applicable to 100% of our leaf suppliers and the Company's performance is reviewed through self-assessments on an annual basis. Audits are carried out by an independent consultant every three years and scores are regionally benchmarked and evaluated. Please refer page 141 for the SRTP policy.

### Key Pillars of SRTP

Policy	Alignment of Company policy to SRTP goals. Policy implementation on social and environmental aspects.
Agronomy: Field	Best practices in field management including usage of agro chemicals, integrated pest management, efficient use of wood, careful selection of seeds etc.
Agronomy: Natural Resources	Soil conservation, water resource conservation, efficient use of wood fuels and the use of alternative fuels, implementation of carbon and climate change measures on farms.
Tobacco Leaf Processing	Best practices in employee safety, waste recycling, water and energy efficiency, control of emissions, reducing impact of dust, noise and temperature in workplace.
Social Development	Labour standards, child labour, farmer living standards, equal opportunity, farmer economics.

### CTC's SRTP Scorecard - 2013



evaluating suppliers which have enabled the Company to develop long-standing mutually beneficial relationships with our non-leaf supplier base.

### Length of Relationships: Non-leaf Suppliers

Total suppliers	23
Relationship between 25 years or more	4
Relationship of between 10-25 years	8
Relationship of less than 10 years	11

## Our Business Partners - Non-leaf Suppliers

CTC's non-leaf suppliers consist of parties from which we purchase packaging and other materials. We employ global best practices prescribed by BAT in enlisting, selecting and

# VALUE CREATION REPORT

## Main Supplier List

Supplier	Country	Length of Relationship (years)
<b>Foreign Suppliers</b>		
Benkert Malaysia SDN BHD	Malaysia	2
Tann Papier G.M.B.H	Austria	32
Daicel Corporation	Japan	27
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	27
Arets Graphics	Belgium	6
Indian Tobacco Company Limited	India	16
General Metallisers Limited	India	16
Anzpac Services (Australia) Pvt Ltd	Australia	15
Tann Philippines Inc.	Philippines	11
PT Argha Karya Prima Industry, TBK	Indonesia	10
Siegwerk Switzerland AG	Switzerland	10
P T Bukit Muriya Jaya	Indonesia	7
Tien Wah Press	Malaysia	7
Payne India (Pvt) Ltd	India	4
Amtor Tobacco Packaging	Malaysia	6
Sun Chemicals - Switzerland	Switzerland	4
Henkel Adhesives Technologies India Pvt.Ltd	India	5
<b>Local Suppliers</b>		
Aitken Spence Printing and Packaging	Sri Lanka	23
Ceylon Tapes (Pvt) Ltd	Sri Lanka	17
Packwell Lanka Limited	Sri Lanka	16
PrintCare Packaging (pvt) Ltd	Sri Lanka	9
JF & I Packaging	Sri Lanka	3

### Non-leaf Supplier Management Framework

Supplier management is a critical part of our model. Successful supplier management is dependent on the appropriate approach and process application throughout each step of the sourcing process, as this is where the foundations for the future relationships are laid.

Supplier development is also a key focus area for the Company, and we invest considerable time and effort to develop local suppliers to meet expected international quality standards. CTC has been successful in developing local suppliers, especially in the printing category, allowing us to

shift from an international supplier, to a local one for our core printing materials.

BEST (Business Enabler Survey Tool) is a survey based tool used to 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. Through positioning suppliers against excellence criteria and robust good practices, we are able to objectively rate our suppliers, identify 'pressure points', and appropriately manage identified risks. It also provides direction and priority for continuous improvement.

## HUMAN CAPITAL

CTC's critical success factor is our team of 264 employees, whose collective experience, expertise, values and work ethic have enabled us to consistently deliver strong business results. As a Company that offers exciting opportunities for career and skill development, we are able to attract, develop and retain a diverse pool of talented people in a rewarding and responsible work environment. CTC has consistently ranked as one of the country's most preferred employers; in 2015 it won the category award for Employee Relations at the Best Corporate Citizen Awards presented by the Ceylon Chamber of Commerce for the third consecutive year.

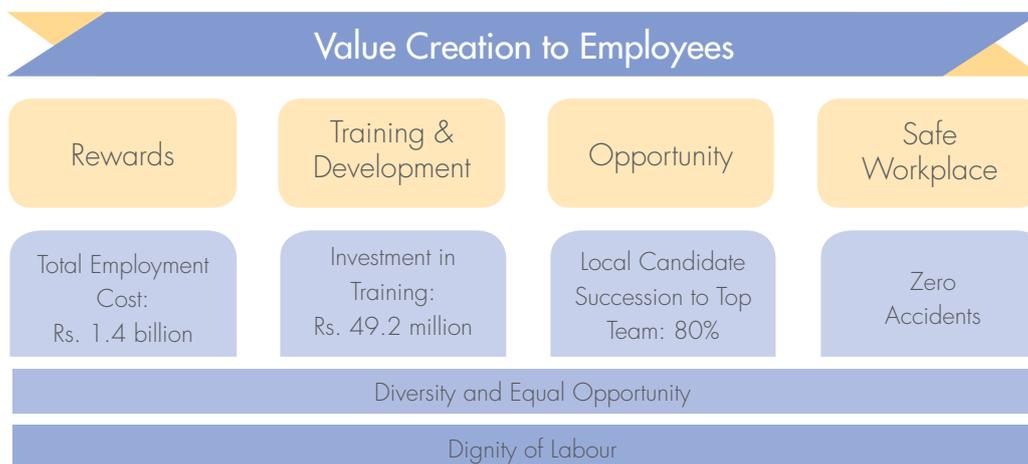
### Material issues discussed in this section

- ★ Employee engagement
- ★ Training and development
- ★ Occupational health and safety
- ★ Workplace human rights

### GRI disclosures:

LA1, LA6, LA9, LA10, LA 11, LA16

## CTC Value Proposition



## Human Capital Governance

Formalised policy frameworks, well defined governance structures, systems and processes are in place to support all human resource related aspects and ensure uniformity in application of the Company's policies.



## Our People Strategy

CTC's people strategy centres on three key pillars which strive towards creating a Winning Organisation through nurturing high-performing leaders who will lead the delivery of the Company's strategy and inspire people to deliver outstanding results. Our strategy is broadly aligned to the human capital approach of BAT, which has been ranked as a top employer in many markets around the world.



# VALUE CREATION REPORT



## Principles and Conduct

The shared values of our people are embodied in four guiding principles, which underpin our organisational culture and form the foundation of our value creating process. These principles which are, Enterprising Spirit; Freedom Through Responsibility; Open Minded; and Strength From Diversity is vital to how the Company's strategy is executed. All employees must also comply with the Standards of Business Conduct (SOBC) which sets out standards of business integrity and corporate behaviour we expect of our people. The SOBC encompasses the Company's expectations pertaining to conflicts of interest, political contributions, financial integrity, human rights, confidentiality and information security among others.

## The Power of Diversity

Promoting diversity is an important aspect of BAT's global human resource agenda and the Group's specific diversity ambition is to achieve a sustainable improvement in senior representation of women and nationalities by 2020. This goal has been propagated to all subsidiaries including CTC and we have sought to improve female representation through ensuring balanced access at entry level, providing

opportunities for flexible working, increasing maternity benefits and facilitating platforms for engagement between professional women, such as the WICE initiative. Resultantly, female representation in management roles increased from 13% to 17% during the year, a figure we expect to bring to 20% by 2016. We have also adopted the Group's global employer brand of "Bring your Difference" which aims to build an exciting and inspiring work environment through the strength of a diverse workforce.



## WICE (Women, Inspire, Connect and Empower) Initiative

- ★ A diversity network developed with the objective of providing a platform for professional women to connect, share and learn from each other.
- ★ Carried out in collaboration with a leading multi-national company.
- ★ Operates under the pillars of Professional Development and Support and Engagement.

## Employee Engagement

We use multiple platforms to maintain a high level of engagement with our employees including face-to-face interviews, the intranet, internal newsletters and recreational events. 'One-on-one with ExCo' is a series of monthly breakfast updates conducted by the Executive Committee (ExCo) with the participation of the management and executive level employees. The sessions encourage two-way communication and are an effective platform for obtaining employee feedback and keeping employees abreast of changes in the Company's business performance and outlook. In addition, the annual Company Plan Cascade provides an opportunity for all employees (including factory staff) to engage with the ExCo in understanding the Company's performance trends and future outlook (Please refer to page 8 Stakeholder Engagement for a list of all staff engagement methods)



## Employee Engagement Activities in 2015

- ★ **Your-Voice Survey:** The 'Your Voice' survey is conducted on an annual basis and measures employee engagement and satisfaction on a broad range of aspects including leadership, corporate responsibility, rewards and recognition and talent development among others. Feedback from this survey revealed further potential for improvement in the key areas of talent and recognition, change management, line capability, environment and team work.

The key focus in 2015 was the formulation and implementation of specific engagement initiatives targeted at addressing potential areas for improvement identified through the 'Your-Voice' survey and challenges arising from an organisational design change that took place during the year.

- ★ **The Spartan Challenge:** Formulated as part of the Company's leadership development agenda, the 'Spartan Challenge' aimed at preparing the leadership team's mind-set to drive upcoming changes, ensuring differences in the team were addressed and reconfirming leadership accountability. The Company conducted a two-day programme aimed at ensuring change readiness and adaptability among employees. Key outcomes of the programme included instilling the ability to cope with change, buffer against changing environments and thrive as an individual. The 'Spartan Challenge' was conducted with the participation of all grade 32 and above employees across all functions.

- ★ **Talent Brand:** Key among the engagement initiatives introduced during the year, was the launch the 'Talent Brand' a unique and cohesive programme aimed at nurturing distinctive attitudes in our people that capture the essence of the talent experience offered by BAT and its subsidiaries. Focussed communication through 'Pulse', the Company's quarterly newsletter, a video series capturing the day in the life of employees and multiple training programmes were conducted in line with this launch.

# VALUE CREATION REPORT

OUR TALENT BRAND	
 <p>Bring your difference and rise to exceed</p>	<p>An industry with unique opportunities and challenges for those with perseverance, resilience and a never give up attitude.</p>
 <p>Bring your difference and inspire others</p>	<p>Passion is the driving force behind CTC's authentic culture and progress. We leave no stone unturned in our efforts to go forward as individuals and as an inspiring team.</p>
 <p>Bring your difference and live global</p>	<p>Our connection to the group is strong. Interaction with global counterparts, diversity and exposure to world class systems and processes makes a career at CTC a global one.</p>
 <p>Bring your difference and celebrate our triumphs</p>	<p>Contributions to our progress, in ways big or small, deserve to be recognised and rewarded accordingly. That's why delivering results at CTC is so satisfying.</p>
 <p>Bring your difference and believe in yourself</p>	<p>We see your career as a long-term commitment, and offer you wide range of development opportunities. While we are behind you all the way, your success is defined by you.</p>

As a result of these initiatives, significant improvements were seen across the board in multiple indicators including staff retention, succession, diversity and regrettable losses among others.

## Talent Development

As a top employer we are able to attract an ambitious and talented pool of people who are inspired to excel. 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. In order to effectively groom them to become the next

generation of leaders in the Company, a comprehensive talent development framework is in place, which facilitates monitoring of performance, succession planning and development of skills aligned with the Company' strategy. Training needs are identified through a structured process which consists of gathering inputs, identifying strengths and areas for development and formulating options for development. CTC's approach towards learning and development embodies a 70:20:10 philosophy as depicted on page 81.

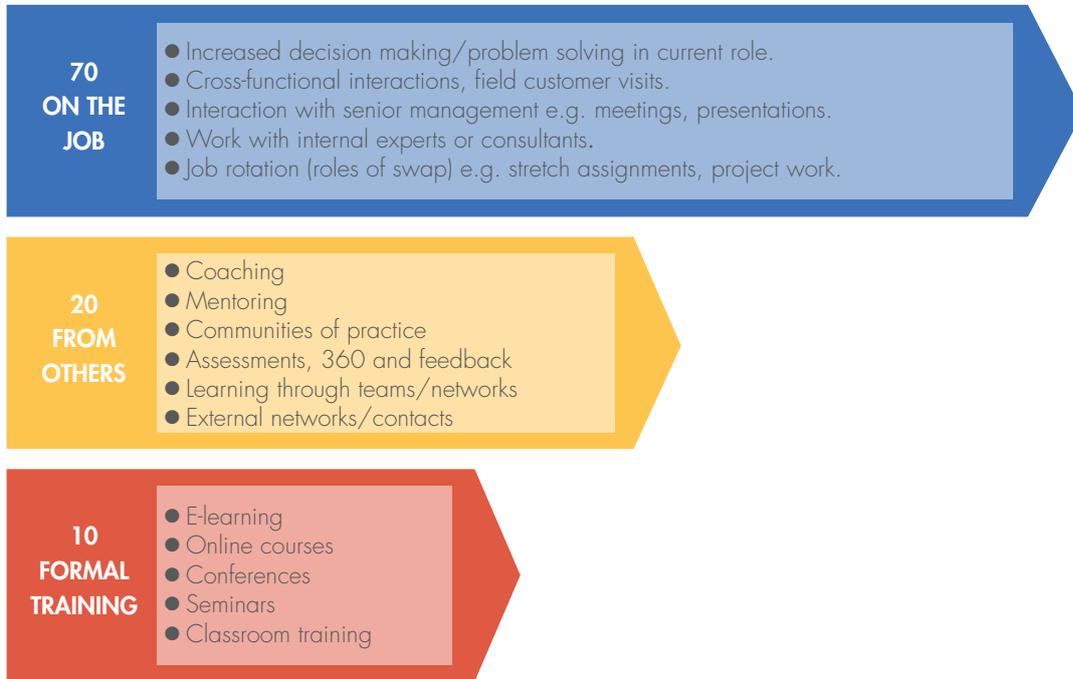
Performance reviews are conducted for all permanent employees on an annual basis, facilitating structured feedback and highlighting areas for development. During the year CTC invested Rs. 49.2 million on people development with coverage of 80% employees undergoing at least one training programme.

Key training initiatives carried out during the year include,

- ★ **Corporate Ambassadorship:** This programme was formulated with the objective of nurturing the skills required to face and respond to challenging external pressures pertaining to our industry. The programme was initially launched to cover senior managers and subsequently rolled out to the marketing and general staff cadres as well.



## 70: 20: 10: Philosophy



- ★ **Effective Leadership Programme:** A four-day residential programme conducted by an external facilitator focused on enhancing the BAT leadership capabilities of the next generation leaders.
- ★ **LeAP:** A two-day core training programme, which is part of the Leadership Training Curriculum, this initiative aims to build soft skills such as interpersonal communication, influencing, valuing differences and self-development.
- ★ **Management Trainee Programme:** The ongoing MT programme has continued to attract the country's top young talent, and we in turn provide opportunities for these individuals to realise their aspirations and become global professionals with the requisite skills to excel in diverse cultures and operating environments. Several of the Company's current management team have evolved through this Programme, a testament to its effectiveness in developing young talent.
- ★ **"Fast Track 15" Internship:** Conducted in collaboration with John Keells Holdings and HSBC, the internship programme attracts locally and internationally qualified undergraduates, providing them with an opportunity to experience the local corporate culture and work environment.

- ★ **The Talent Portal:** A part of the BAT intranet, the Talent Portal provides employees with access to global best practices in functional and leadership development through an e-learning platform.

As an ongoing line-up we also conducted a series of training and advisory programmes such as Business Communication and Language of Finance among others.

We constantly focus on growing and nurturing the next generation of leaders through an annual organisation-wide talent assessment process, which matches individual capabilities to expected business requirements. CTC pursues a strategy aimed at identifying and developing key talent for local top team succession. Succession to top team by local candidates doubled in 2015 to 80%, a testament to our commitment to develop the local talent base.

### Employee Productivity

The Company's performance management system ensures that all staff members are evaluated on predefined objectives and competencies. 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.

# VALUE CREATION REPORT

## Cigarettes Produced Per Man Hour



### Safe Place to Work

CTC's approach towards safety at the workplace is aligned with the Group's Health and Safety framework and policy (refer page 153 CTC's Health and Safety Policy). The Group operates with a goal of zero accidents and in 2015, CTC's Colombo Factory and the Green Leaf Threshing Plant in Kandy recorded zero accidents. In addition to departmental Health and Safety Committees, CTC's health and safety governance structure includes a cross-functional EHS Steering Committee which meets annually to monitor health and safety performance parameters and identify areas for continuous improvement. Health and safety topics covered in collective agreements with the unions comprise of employee medical benefits which include coverage, type of illnesses, insurance claim reimbursements and scope of insurance among others. With the zero accident record this year, CTC's Colombo factory completes a 16 year track record of nil lost workday incidents.

### EHS Governance Structure



Health and safety initiatives carried out during the year include,

- ★ PULSAR - Involves the mutual observation of employees' health and safety behaviour and providing reinforcement on positive aspects, which is expected to condition employees to continuously adopt these behaviours.
- ★ NEARMISS - Employees are given the opportunity to report potential safety risks and hazards through mobile technology. Follow-up is actioned by the EHS Manager.
- ★ BAT Group's Asia Pacific Regional Health and Safety Conference was held in Sri Lanka during the year.
- ★ Monthly safety walks, health and safety briefings for new employees and 'EHS' Moments at all staff meetings were also conducted.

### Health and Safety Performance

	Total
Injury rate	0
Lost day rate	0
Absentee rate	0
Work related fatalities	0

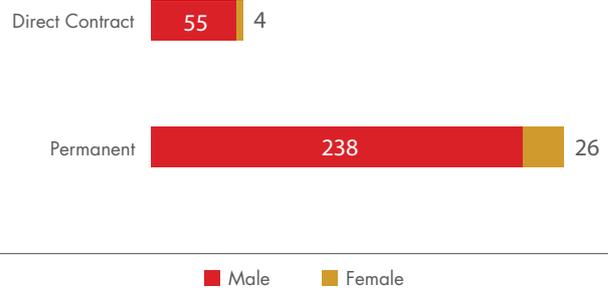
### Grievance Mechanism

A formalised employee grievance mechanism is in place ensuring confidentiality, an impartial hearing and follow-up action if deemed necessary. All grievances are initially brought to the attention of the respective Head of Function and subsequently discussed with the Head of HR depending on the severity of the grievance. In general, all grievances are responded to within 10 days of initial communication. During the year under review 68 such grievances were filed, out of which 63 were resolved during the year.

## Industrial Relations

Our employees have freedom of association and the Company's non-executive employees, amounting to 30% of the total workforce are represented by trade unions and covered by a collective agreement. The collective agreement forms the foundation for harmonious industrial relations with the employees and is aligned with the Company's people and business objectives. We engage pro-actively 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.

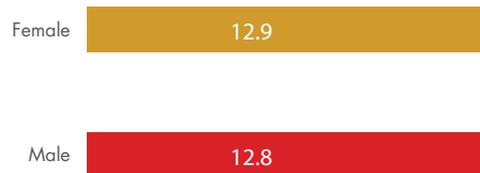
## Employees by Type and Gender - 2015



## Training Investment (Rs. million)



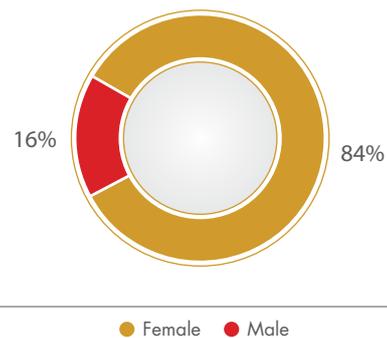
## Average Training Hours - 2015



## New Hires by Age Profile - 2015



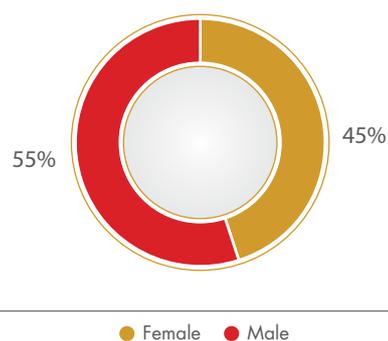
## Turnover by Gender - 2015



## Turnover by Age Profile - 2015



## New Hires by Gender - 2015

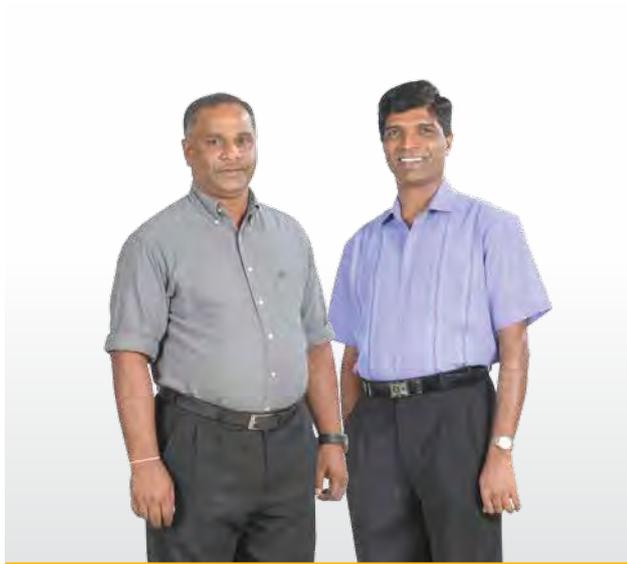


# VALUE CREATION REPORT

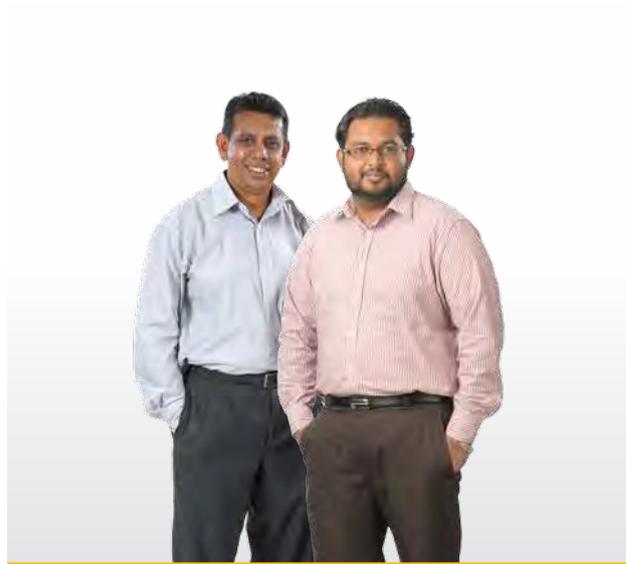
## OUR TEAMS



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



The Security Union



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



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



The Barn Owners' Association

# VALUE CREATION REPORT

## Investing in Communities

During our 110 years of operations in Sri Lanka, we have developed deep-rooted relationships with the communities we operate in. Robust engagement mechanisms, strategies and processes have enabled us to understand and respond to community needs, form collaborative partnerships and drive sustainable needs-based development in these communities. Over the last decade CTC has invested more than Rs. 1.0 billion in CSI projects, while its flagship CSI initiative, the Sustainable Agricultural Development Programme (SADP) and has uplifted livelihoods of over 69,000 beneficiaries in 16 districts across the island.

## Group Approach to CSI

We adopt BAT's strategic framework for Corporate Social Investment (CSI), which encourages all group companies to adopt a proactive approach towards CSI as an end in itself rather than a means to promote ourselves. The framework also prescribes that all CSI projects be managed locally in addition

### Material Issues in this section

- ★ Corporate social investment
- ★ CSI Governance

### GRI disclosures:

G4-SO1, G4-SO2

to encouraging employee participation/volunteering. Realistic and measurable KPIs should be developed, agreed, reviewed and performance monitored and reported to the Regional Audit and CSI Committees and the Board CSI Committee through the annual CSI survey.

The Group has defined three global CSI themes as depicted below, which complement several Sustainable Development Goals adopted by United Nations Member States in September 2015, as part of a new sustainable development agenda.

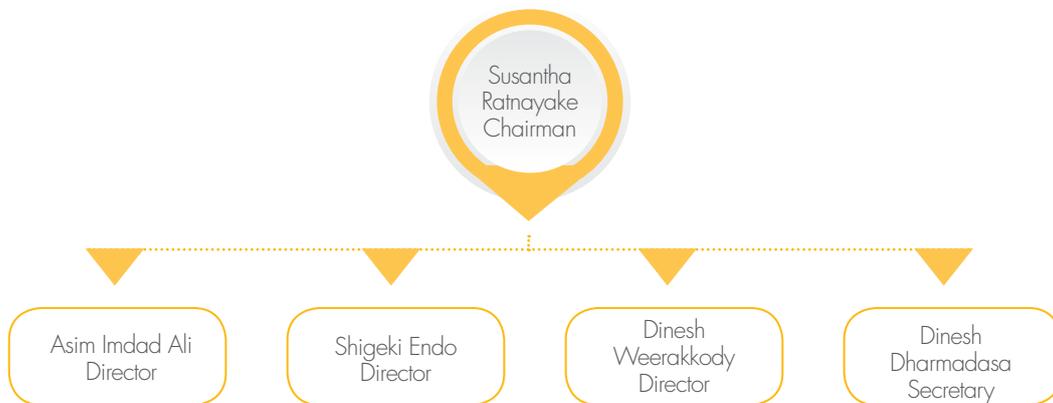


## CSI Governance

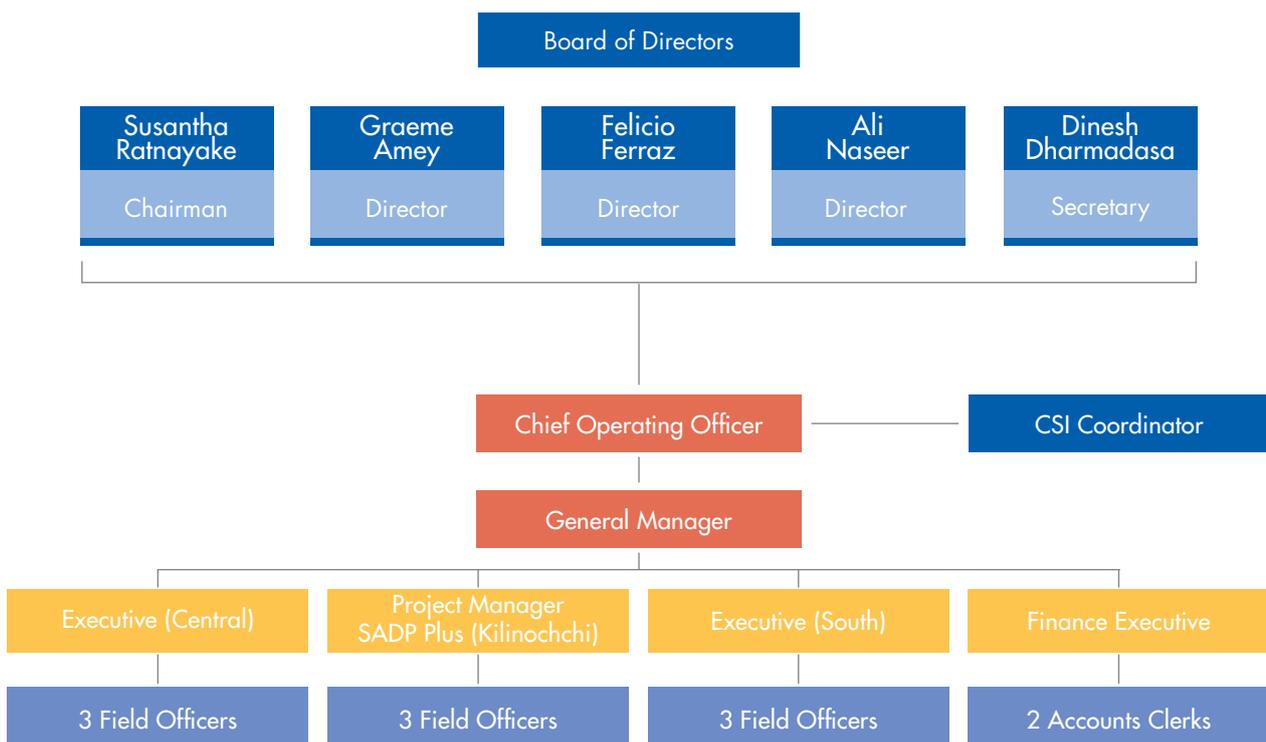
The Board CSI Steering Committee is tasked with the responsibility of reviewing and making appropriate recommendations to the Board regarding the Group's management of corporate social investments and the conduct of business in accordance with the Standards of Business Conduct. In addition the Regional Audit and CSI Committee ensure that materials and issues that are presented and raised at regional level are fed into Board discussions at Group level and vice versa. The composition of CTC's Board CSI Steering Committee is as follows:

Given the increasing scope and coverage of SADP, Outreach Projects (Guarantee) Limited was established in 2007 to ensure the transparency and integrity of all activities carried out under 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.

## CSI Steering Committee



## Outreach Organisational Structure

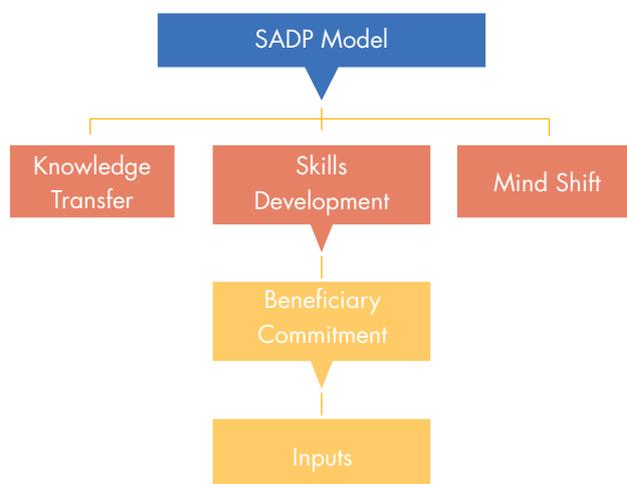


# VALUE CREATION REPORT

## Sustainable Agricultural Development Programme (SADP)

Launched in 2006 to help fulfil the Millennium Development Goal of alleviating poverty SADP focuses on sustainable agriculture development through knowledge transfer, resource assistance and empowering rural communities through creating a paradigm shift in attitudes. It operates under a strict policy of no direct financial assistance. The programme focuses mainly on the Sustainable Agriculture and Environment pillar of CSI, prescribed by BAT's strategic framework.

During the decade since its inception, the project has generated tangible benefits to over 69,000 beneficiaries across the country. CTC has also broadened SADP's scope and coverage in line with national priorities and evolving community needs, launching several variants which are run at intervals and in parallel to the original programme.



People living below the poverty line in selected rural villages are provided with required inputs to become self-sufficient through home gardening and animal husbandry in small plots of land.

9,815 Families

Rs. 296 million Investment



Implemented in the Eastern Province 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.

2,700 Families

Rs. 79 million Investment



Implemented to enable the rehabilitation of ex-LTTE combatants in Kandankadu through agriculture related vocational training.

1,449 Families

Rs. 2.9 million Investment



Development of a model farm in Sooriyawewa to serve as a knowledge-imparting hub used to train farmers in the area on environmental friendly agricultural practices.

Support farming communities in the South

Rs. 6.3 million Investment



SADP Ultra was created to involve tobacco farmers in the cultivation of cash crops such as maize and other home gardening crops, in tobacco fields with the objective of providing farmers with an additional source of income whilst contributing to the preservation of biodiversity.

4,100 families

Rs. 4.6 million Investment

## Outcomes and Impact

The performance of SADP is monitored against eight specific objectives which evaluate the outcomes and impact of the programme as well as its scope and coverage. Performance is monitored through an annual independent study conducted by Ernst & Young. The subsequent section details the results of the study carried out in 2015.

### (1) Implement the programme amongst 18,064 families by 2015 and alleviate poverty among them in a sustainable manner

Given the tangible and sustainable benefits arising from the programme we are committed towards continuously widening the coverage of beneficiaries. In 2015, we recruited 600 families to the programme, thus bringing the total beneficiary families to 18,064 by the end of the year.

### (2) Provide a balanced meal – improve nutrition intake from 1,429 calories to beyond 2,030 calories per day

An impact study conducted by Ernst and 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.

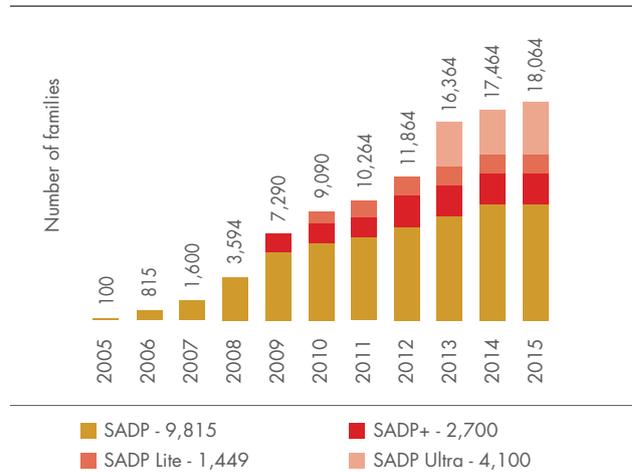
### (3) Increase the level of agricultural knowledge

The independent review carried out by Ernst and Young revealed that resultant from their widened agricultural knowledge beneficiaries have successfully generated an alternative source of income whilst obtaining the required nutrition levels.

### (4) Providing beneficiaries with an additional source of income

During the first year of participation, a beneficiary family will earn approximately Rs. 3,000 per month, which increases to Rs. 12,700 in the next two years and a graduate family (in the programme for over 30 months) will earn over Rs. 18,200 per month.

## Growth of SADP



## Beneficiary Nutrition Levels

Daily Calorie Intake	Recommended Daily Allowance	Baseline (%)	Mid-line (%)	Graduate (%)
Energy (Cal)	300	89	97	100
Protein (g)	55	87	100	100
Fat (g)	65	100	100	100
Carbohydrate (g)	300	100	170	170
Calcium (mg)	600	75	92	100
Iron (mg)	25	81	95	100
Retinal (µg)	750	44	59	48
b-Carotene (µg)	3000	65	100	150
Vitamin C (mg)	50	200	400	470

## Beneficiary Income levels

REF	Indicators (Farmers)	Baseline (Rs.)	Mid-line (Rs.)	Graduated (Rs.)
A	Average monthly income from home gardening.	3,045	8,875	13,453
B	Average monthly income from livestock.	-	3,906	4,798
C	Average total income.	3,045	12,781	18,251

# VALUE CREATION REPORT

## (5) Female empowerment

In most beneficiary families, women lead the implementation of the project and play a vital role in sustaining it throughout its life cycle. The independent review revealed that in 94% of the participant families, women led the implementation contributing towards the family's socio economic progress.

## (6) Combat social disharmony



SADP has directly contributed towards alleviating the prevalence of hunger and family poverty, which is in most cases the primary reason for disharmony. Evidence suggests that family harmony of beneficiary families improve in line with the progression of the programme. As per the graphically illustrated chart above family harmony had shown continuous increase as the SADP (Projects) advanced through the stages. The project had attained the set out guidelines in respect of family harmony.

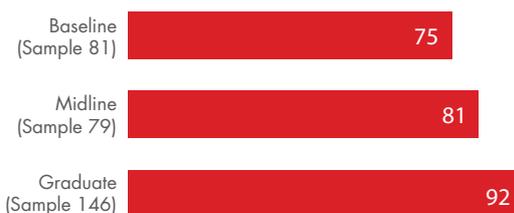
## (7) Enhance land utilisation and productivity

Use of land to cultivate vegetables, fruits and animal husbandry by beneficiary families has facilitated the maximum utilisation of their land. The independent review demonstrated that over 92% of the beneficiaries were utilising their lands at optimal levels.

## (8) Promote organic farming

All families participating in SADP are required to source fertiliser entirely through composting organic waste and manage pests by using Integrated Pest Management techniques. Almost 99% of beneficiary families were compliant with the organic practices recommended by the programme.

## Family Harmony (%)



## Agrowells Project



Launched in response to a severe drought in Welioya, the project involves the construction of 100 wells together with the Ministry of Economic Development.

Aligned with the Company's CSI objective of Empowerment, the agrowells project was launched in 2014 with the objective of providing relief to families affected by adverse weather conditions in the Welioya region. Through this project, we aided farmers to obtain water pumps on credit and facilitated the construction of 100 agrowells. Each well is scaled to be used by four families and is anticipated to create a sustainable solution to the water scarcity experienced by the local communities. A People's Committee comprising of key beneficiaries has also been set up to ensure the adequate upkeep of the wells.

## Distribution of Agrowells

Village	No. of Wells
Ehetugaswewa	9
Gajabapura	9
Hansavila	9
Helambawewa	7
Janakapura	10
Kalyanipura	1
Kalyanipura I	1
Kalyanipura III	4
Kiri-ibbanwewa	5
Kiri-ibbanwewa Right	5
Mayawewa	10
Monarawewa	2
Namalpura	7
Nikawewa Left	4
Nikawewa Right	2
Ranathisarapura	2
Sampathgama	2
Sapumalthenna	11

## Refurbishment of Kotahena Community Centre

CTC consistently strives to engage its employees in its CSI initiatives, and during the year 80 of our staff members participated in the renovation of the Kalimuththu Community Centre in Kotahena. Previously used as a venue for social gatherings amongst the low-income communities living in and around Kotahena, the community centre had been out of use due to its poor condition. At the request of the Colombo Municipal Council, the Company invested Rs. 3.0 million in renovating and modifying the Centre as its staff CSI project for the year.



SADP family with produce from their home garden.



Family using an agrowell constructed by CTC.



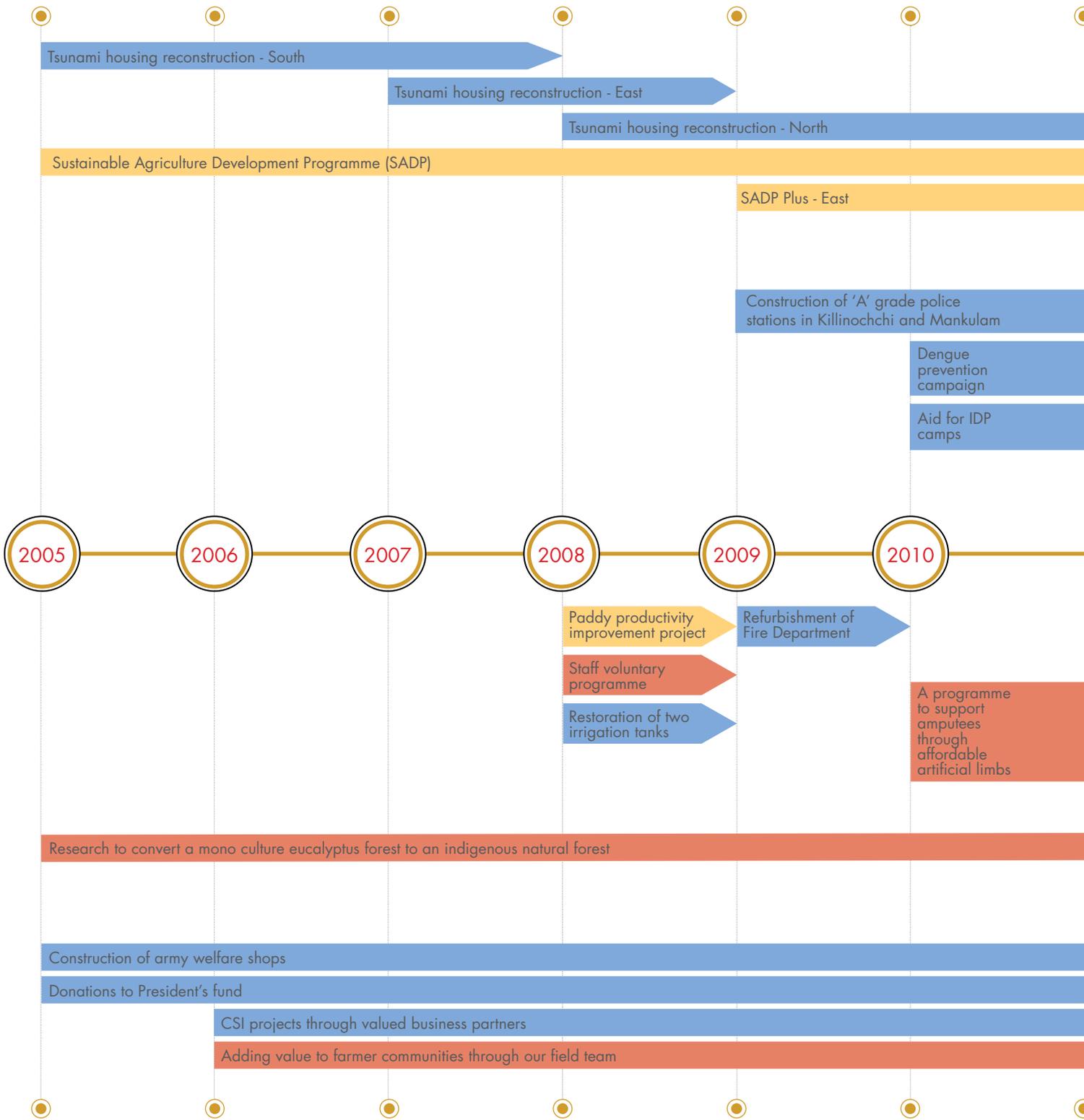
Kotahena community centre renovated by CTC employees.



CTC winning the Asia Responsible Entrepreneurship Award 2015.

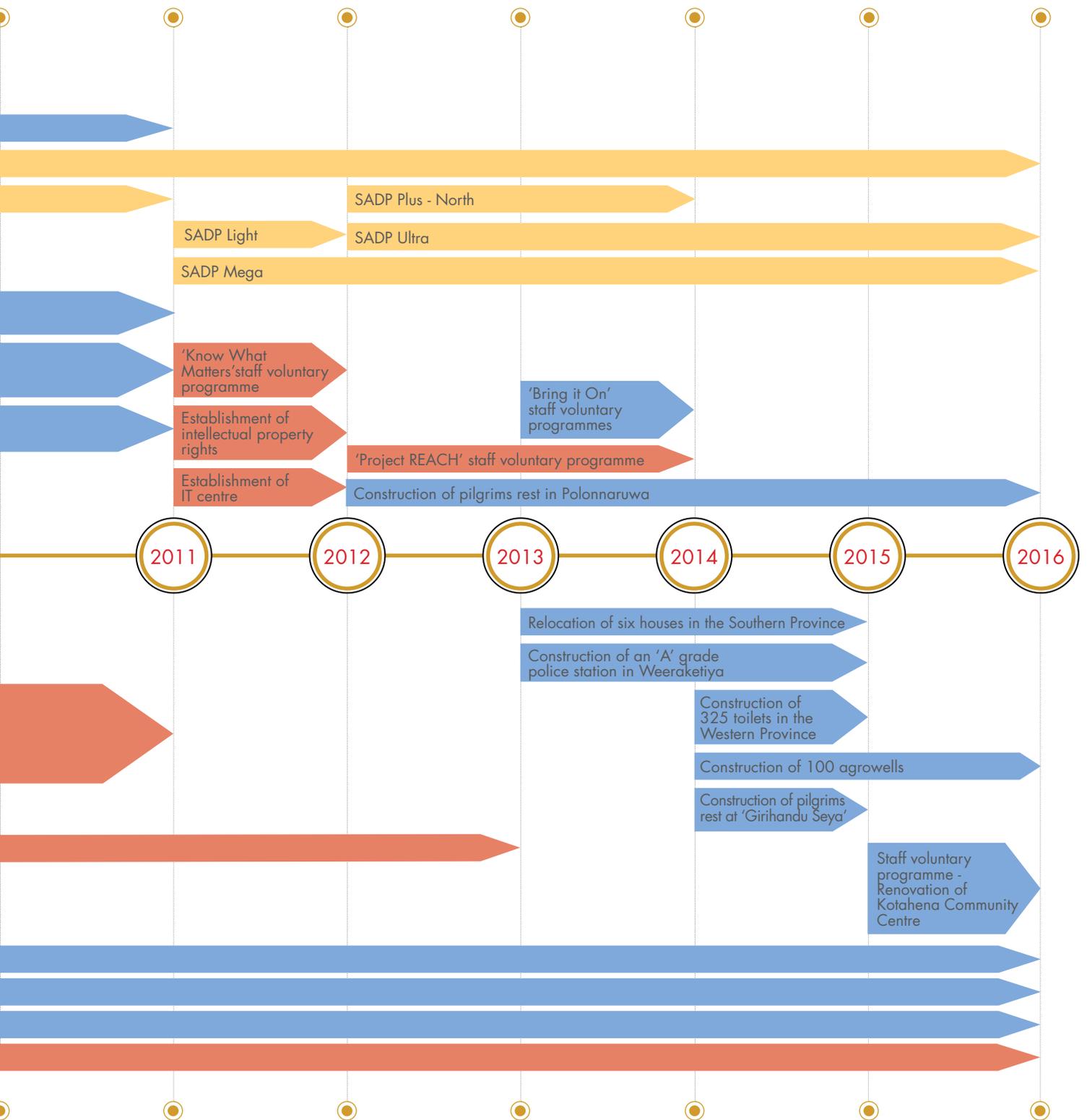
# VALUE CREATION REPORT

## OVER A DECADE OF CORPORATE SOCIAL INVESTMENT



# THE CORE OF EXCELLENCE

- Sustainable Agriculture and Environment
- Empowerment
- Civic Life



# VALUE CREATION REPORT

## NATURAL CAPITAL

As an organisation which utilises natural resources in its manufacturing process we understand our responsibility in minimising our environmental footprint and ensuring that our business, local communities and ecosystems have adequate natural resources required for a sustainable future. With the effects of climate change expected to be felt more pronouncedly in the coming years, we recognise that environmental changes could potentially impact the sustainability of tobacco sourcing whilst affecting the communities we operate in.

### Material Issues in this section

- ★ Minimising our environmental footprint
- ★ Environmental impacts of tobacco growing

### GRI disclosures:

G4-EN1, G4-EN3,G4-EN4,G4-EN5,  
G4-EN6, G4-EN8,G4-EN10,G4-EN15,  
G4-EN16,G4-EN17, G4-EN19, G4-EN22,  
G4-EN23,G4-EN29,G4-EN31

## Group Management Approach

The Group's approach towards managing its environmental impacts is governed by a comprehensive Environmental Policy and management system. The system is based on international best practices in environmental management, including ISO 14001. CTC's environmental policy (refer page 150) is applicable to all our operations including the supply chain. Key tenets of the framework are;

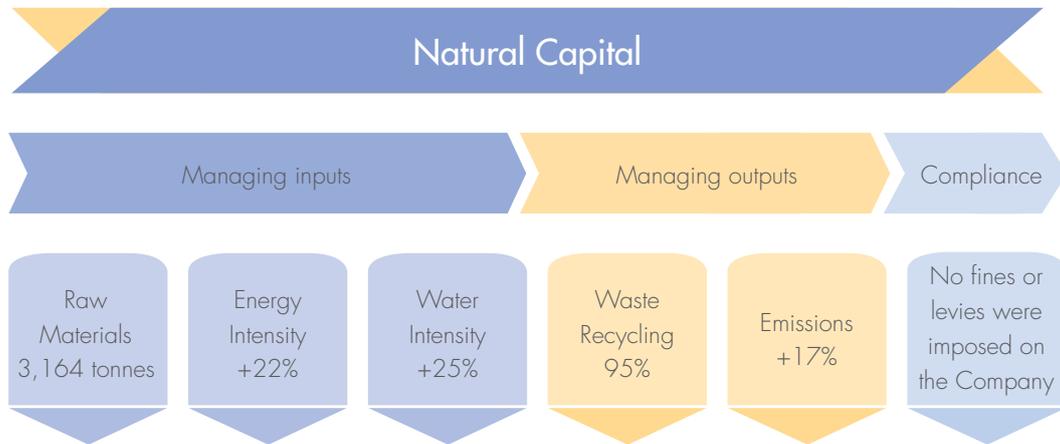
Understand our impacts on the environment and pro-actively put in place plans to minimise these impacts

Manage, monitor and report on environmental performance

Include environmental considerations in our product design

Work with suppliers and business partners to share best practice and reduce the impacts of our products across the total life-cycle

## Performance Highlights

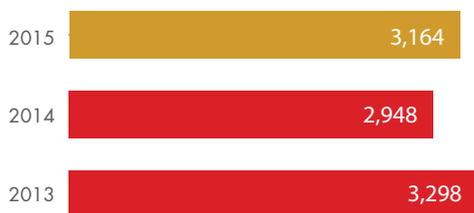


### Raw Materials

The primary raw material used in the manufacture of cigarettes is tobacco leaves, a renewable resource which is sourced in its entirety from local farmers. The Company consumed a total of 3,164 tonnes of tobacco during the year, an increase of 7.3% compared to 2014. This increase raw material consumption can be attributed to the volume increase seen in 2015.

The Company's SRTP framework (discussed in detail on page 75 of this Report) ensures that tobacco farmers engage in sustainable agricultural practices during the cultivation of tobacco leaves including usage of agro chemicals, careful selection of seeds, measures to minimise soil degradation and reduce consumption of water.

#### Raw Material Consumption (tonnes)



### Energy

The Company's key sources of energy are electricity, diesel, furnace oil, and petrol. As part of our integrated energy reduction initiative a project team was set up under the purview of the Operational Committee to plan and implement technical upgrades, refine work practices and engage employees through training and awareness programmes with the objective of developing an energy conscious workforce. We also expanded the Energy Hubs system during the year to 51 hubs, improving our ability to identify high consumption areas and work together with process owners and implement targeted solutions to reduce consumption.

During the year, we widened the scope and coverage of our energy calculations to include more sites and processes to better reflect the total energy consumed. Resultantly, total direct energy consumption demonstrated an increase of 3.5% whilst the energy intensity ratio (defined as energy consumption per million sticks of cigarettes) also increased by 22% during the year. Furthermore, our Green Leaf Threshing Plant in Kandy processed a lesser quantity of tobacco leaf due to the crop loss caused by adverse weather conditions (1.0 billion sticks equivalent loss) which further impacted the Company's overall energy intensity numbers.

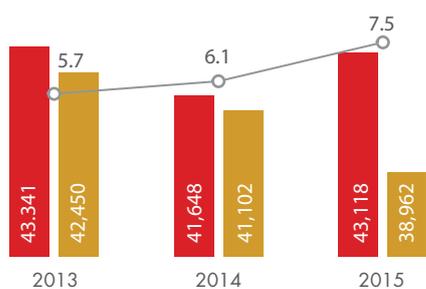
However, CTC's indirect energy consumption (Electricity) reduced by 5.2% over the previous year. This was a result of multiple initiatives targeted towards driving down our electricity consumption resulting in an annual energy saving of 472,942 kilowatt hours (kwh).

# VALUE CREATION REPORT

## Key Energy Initiatives for 2015

Area	Initiative	Investment (Rs.)	Annual Energy Saving (kwh)	Annual Saving (Rs.)
Lighting	Replacement of Office lighting with LED - phase 1 (60% reduction in energy consumption)	660,000	31,795	440,361
Motors	Replacement of inefficient motors in CDEU	750,000	35,000	484,750
Motors	Replacement of inefficient motors in Feeders	650,000	19,147	265,186
HVAC	SMD chiller plant replacement	24,500,000	387,000	5,359,950

## CTC's Energy Consumption Trends

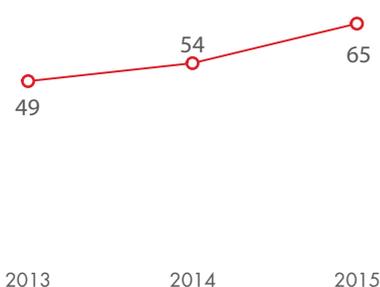


■ Direct consumption (giga joules) ■ Indirect consumption (giga joules)  
○ Energy intensity (giga joules per million cigarette equivalent)

## Coverage of Barn Automation

We are committed towards increasing the use of renewable energy and were one of the first tobacco companies in the world to utilise paddy husk to generate energy in the tobacco curing process, thus completely eliminating the use of firewood. This practice has now been emulated across other markets in the Group. In addition, we widened the scope of our barn automation initiative to achieve 65% coverage; this initiative which consists of automating the temperature control systems resulting in a 25% saving in energy consumption and reducing emissions.

## Automation Adoption (%)



## Water

Water is an important resource in tobacco growing and processing. The Group's global target is to reduce water consumption by 27% (in comparison to the base of 2007) by 2017 and multiple initiatives across all our direct operations have enabled CTC to record substantial improvements in water use in recent years. Achieving reductions in water consumption along our supply chain is also an important priority and has been included as an area of focus in the SRTP framework.

## Water Withdrawal

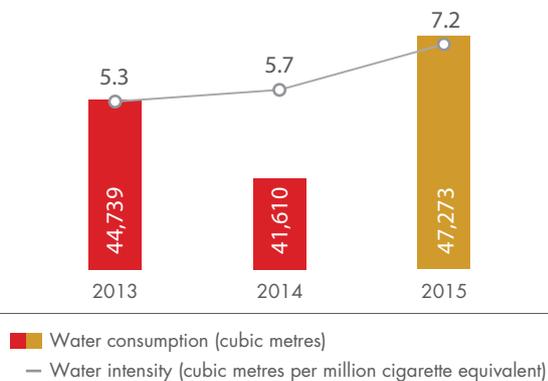
Source	Volume (cubic metres)
Surface water	0
Ground water	0
Municipal water	47,273
Other (describe)	0
<b>Total</b>	<b>47,273</b>

During 2015, total water consumption increased by 13.6%, reflecting higher production volumes as well as increased coverage of our water withdrawal calculations. Water intensity (defined as cubic meter of water used per million cigarettes) amounted to 7.15 cubic metres, compared to 5.70 cubic metres the previous year. The impact on our resource intensity figures is compounded by the reduction in tobacco leaf processes at the Green Leaf Threshing Plant due to the crop loss faced during the year (1.0 billion sticks equivalent loss).

Key initiatives that have been put in place to improve the Company's water footprint include;

- ★ Upgrading the effluent treatment plant with an extension of a tertiary treatment system enabling CTC to significantly reduce the consumption of water for non-critical activities, through increased re-cycling;
- ★ Installing a more efficient odour abatement plant, which in addition to curtailing odour emissions has resulted in substantial water savings; and
- ★ Increasing employee consciousness of water conservation through targeted awareness programmes.

## Water Consumption



## Solid Waste and Effluents

All solid waste generated by our operations are segregated and disposed of in means that cause minimal environmental damage. Key types of waste generated include tobacco waste (tobacco dust and confiscated cigarettes), waste wrapping and packing material (plastic and paper), food waste (canteen) and hazardous waste (e-waste, fluorescent and CFL bulbs). Tobacco dust and confiscated cigarettes are sent to GeoCycle, where it is used as an alternative fuel through

co-generation. A significant part of the waste generated from green leaf threshing is sent to Tokyo Cement as fuel for power generation, while a smaller portion is converted to compost and distributed to farmers to be used in cultivation. Other waste such as plastics and paper are collected, segregated and sold to recyclers and re-users. Waste considered to be hazardous in nature are sent to approved third party recyclers. In 2015, more than 95% of waste generated was sold for re-use or recycling, while waste to landfill was reduced by 55% in line with the Group's global target for waste management.

## Solid Waste Disposal

Method of Disposal	Solid Waste (tonnes)
Waste sent for recycling	631
Landfill	31
On-site storage	0

## Waste Recycling (%)



Water discharged from our operations is treated in an effluent treatment plant and re-used for non-critical activities such as gardening and roadway cleaning.

## Emissions

During the year we undertook several initiatives aimed at reducing our emissions.

The key activities include;

- ★ Several projects were undertaken to reduce electricity consumption at the Colombo plant which ultimately contributed to reduced emissions at source (Refer page 96 for more details)
- ★ 35% of the Trade marketing fleet was replaced by hybrid vehicles that consumed less fuel which in turn reduces emissions;

# VALUE CREATION REPORT

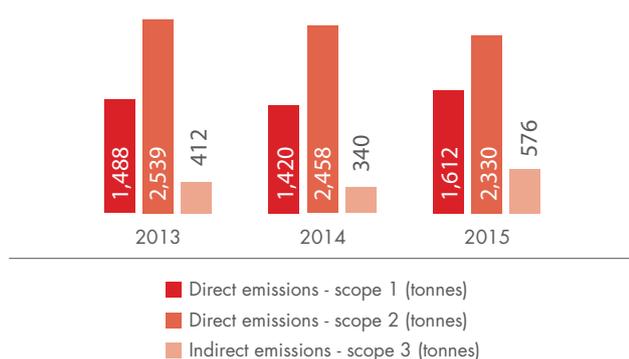
★ In an innovative approach aimed towards reducing emissions generated from barn operations, we collaborated with a local innovator to implement an ash-trap solution for curing barns. As an initial pilot project 39 units were installed in the Kalawewa area.

Despite initiatives undertaken by the Company, its emission intensity in 2015 increased by 17% reflecting the increase in operational activity and due to the factors which effected increases in energy and water consumption (Refer page 95 and 97).

## Greenhouse Gas Emissions

Scope	Definition	Tonnes of CO2 Equivalent
Scope 1	Energy consumed at our factories and offices (coal, natural gas, wood, diesel and LPG) and fuel consumed by our fleet vehicles.	1,612
Scope 2	Electricity purchased and consumed at our factories and offices, purchased steam and hot water.	2,330
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.	576

## Green House Gas Emissions



## Biodiversity

Our environmental commitment extends to avoiding, minimising and mitigating our impact on biodiversity and ecosystems. We understand that the survival of ecosystems such as soil, forest products and water are vital for the sustainability of our operations, as well as for the well-being of local communities and landscapes.

One of the key driving factors behind our Biodiversity efforts remains the use of integrated pest management systems (IPM) which reduces the usage of agrochemicals used for pest control. We have also supported farmers to adopt soil conservation techniques such as Sloping Agricultural Land Technology (SALT) and use compost produced from tobacco dust as organic fertilizer.

Biodiversity is also an important aspect of our SADP initiative, through which we disseminate information on sustainable agricultural practices and field management to farmers whilst the Company also annually distributes plants and seeds with the dual aims of enhancing biodiversity and providing farmers with an alternative source of income. In 2015, we distributed over 6,765 plants in 17 varieties and over 620 kg of seeds which is expected to germinate approximately 49 million plants.

## Ensuring Compliance

The EHS Steering Committee is responsible for ensuring compliance to all applicable environmental regulations. EHS is also a standard agenda item in all management and governance committee meetings, thereby facilitating early identification of potential environmental related risks. During the year under review no fines or levies were imposed upon the Company pertaining to non-compliance/violations of any environmental laws and regulations. The Company's total investment and expenditure in environmental protection aspects during the year amounted to Rs. 5.8 million.

# FINANCIAL INFORMATION



Financial Calendar	<b>100</b>
Independent Auditor's Report	<b>101</b>
Statement of Comprehensive Income	<b>102</b>
Statement of Financial Position	<b>103</b>
Statement of Changes in Equity	<b>104</b>
Statement of Cash Flows	<b>105</b>
Notes to the Financial Statements	<b>106</b>
Statement of Value Added	<b>135</b>

# FINANCIAL CALENDAR

## 2015

1st Quarter Results 2015	May 2015
2nd Quarter Results 2015	August 2015
3rd Quarter Results 2015	November 2015
Annual Report for 2015	March 2016
85th Annual General Meeting	March 2016

## 2016

1st Quarter Results 2016	May 2016
2nd Quarter Results 2016	August 2016
3rd Quarter Results 2016	November 2016
Annual Report for 2016	March 2017
86th Annual General Meeting	March 2017

# INDEPENDENT AUDITOR'S REPORT



## INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC. REPORT ON THE FINANCIAL STATEMENTS

1 We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, which comprise the Statement of Financial Position as at 31 December 2015, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 106 to 134.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

### AUDITOR'S RESPONSIBILITY

- 3 Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
- 4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 the internal control relevant to the entity's preparation of 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 management, as well as evaluating the overall presentation of financial statements.

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

### OPINION

6 In our opinion the financial statements give a true and fair view of the financial position of Ceylon Tobacco Company PLC as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

*PricewaterhouseCoopers*

CHARTERED ACCOUNTANTS  
COLOMBO

18 February 2016

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PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# STATEMENT OF COMPREHENSIVE INCOME

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December	
		2015	2014
Gross revenue	6	106,490,586	87,900,479
Government levies	6	(80,391,100)	(66,161,319)
<b>Net revenue</b>		<b>26,099,486</b>	<b>21,739,160</b>
Raw materials used		(2,976,870)	(2,609,831)
Employee benefit expenses	7	(1,418,406)	(1,166,845)
Depreciation expenses	14	(204,216)	(200,758)
Amortisation expenses	15	(10,086)	(9,899)
Other operating expenses		(3,996,014)	(3,584,191)
Other operating income	8	23,165	15,990
<b>Operating profit</b>		<b>17,517,059</b>	<b>14,183,626</b>
Net finance income	10	561,250	402,964
<b>Profit before income tax</b>		<b>18,078,309</b>	<b>14,586,590</b>
Income tax expenses	11	(7,443,981)	(5,967,875)
<b>Profit for the year</b>		<b>10,634,328</b>	<b>8,618,715</b>
<b>Other comprehensive income:</b>			
<b>Items that will not be reclassified to Profit or Loss</b>			
Remeasurement of defined benefit obligations	16	(83,415)	(40,332)
<b>Total other comprehensive income for the year</b>		<b>(83,415)</b>	<b>(40,332)</b>
<b>Total comprehensive income</b>		<b>10,550,913</b>	<b>8,578,383</b>
<b>Earnings per share</b>			
- Basic (Rs.)	12	56.77	46.01
- Diluted (Rs.)		56.77	46.01

The Notes on pages 106 to 134 form an integral part of these financial statements.  
Independent auditors' report - page 101

# STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees thousands)

	Note	As at 31 December	
		2015	2014
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	2,062,797	1,708,437
Intangible assets	15	9,244	17,744
Net surplus assets on retirement benefit plans	16	531,277	587,535
Receivables (staff loans)	19	138,344	133,734
		<b>2,741,662</b>	<b>2,447,450</b>
<b>Current assets</b>			
Inventories	18	3,532,237	3,064,855
Trade and other receivables	19	1,019,711	955,712
Cash and cash equivalents	20	11,378,144	9,009,756
		<b>15,930,092</b>	<b>13,030,323</b>
<b>Total assets</b>		<b>18,671,754</b>	<b>15,477,773</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Stated capital	21	1,873,238	1,873,238
Retained earnings		1,012,248	2,025,207
		<b>2,885,486</b>	<b>3,898,445</b>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	22	408,209	348,184
		<b>408,209</b>	<b>348,184</b>
<b>Current liabilities</b>			
Trade and other payables	23	10,374,375	7,123,784
Income tax liabilities		3,871,759	3,125,871
Dividend payables	24 (a)	936,618	824,224
Unclaimed dividends	24 (b)	195,307	157,265
		<b>15,378,059</b>	<b>11,231,144</b>
<b>Total liabilities</b>		<b>15,786,268</b>	<b>11,579,328</b>
<b>Total equity and liabilities</b>		<b>18,671,754</b>	<b>15,477,773</b>
Net assets per share (Rs.)	25	15.40	20.81

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



**Shigeki Endo**  
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 18 February 2016.



**Susantha Ratnayake**  
Chairman

18 February 2016



**Shigeki Endo**  
Finance Director

The Notes on pages 106 to 134 form an integral part of these financial statements.  
Independent auditors' report - page 101.

## STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees thousands)

	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2014		1,873,238	2,442,255	4,315,493
Profit for the year		-	8,618,715	8,618,715
Other comprehensive income		-	(40,332)	(40,332)
<b>Total comprehensive income for the year</b>		-	<b>8,578,383</b>	<b>8,578,383</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>				
Write back of unclaimed dividends	24(b)	-	5,475	5,475
Dividends	24(c)	-	(9,000,906)	(9,000,906)
<b>Total transactions with shareholders</b>		-	<b>(8,995,431)</b>	<b>(8,995,431)</b>
<b>Balance at 31 December 2014</b>		<b>1,873,238</b>	<b>2,025,207</b>	<b>3,898,445</b>
Balance at 1 January 2015		1,873,238	2,025,207	3,898,445
Charge relating to Super Gain Tax	13	-	(3,810,186)	(3,810,186)
Total comprehensive income				
Profit for the year		-	10,634,328	10,634,328
Other comprehensive income		-	(83,415)	(83,415)
<b>Total comprehensive income for the year</b>		-	<b>6,740,727</b>	<b>6,740,727</b>
<b>Transactions with owners of the Company, recognised directly in equity</b>				
Write back of unclaimed dividends	24(b)	-	10,884	10,884
Dividends	24(c)	-	(7,764,570)	(7,764,570)
<b>Total transactions with shareholders</b>		-	<b>(7,753,686)</b>	<b>(7,753,686)</b>
<b>Balance at 31 December 2015</b>		<b>1,873,238</b>	<b>1,012,248</b>	<b>2,885,486</b>

The Notes on pages 106 to 134 form an integral part of these financial statements.  
Independent auditors' report - page 101

# STATEMENT OF CASH FLOWS

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December	
		2015	2014
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	20,409,957	15,796,027
Interest paid		-	(161)
Interest received		561,250	403,125
Taxes paid		(6,638,068)	(6,042,545)
Super Gain Tax Paid		(3,810,186)	-
<b>Net cash generated from operating activities</b>		<b>10,522,953</b>	<b>10,156,446</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(562,899)	(311,195)
Proceeds from disposal of property, plant and equipment		11,584	5,934
<b>Net cash used in investing activities</b>		<b>(551,315)</b>	<b>(305,261)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	24 (a)	(7,595,929)	(9,088,038)
Unclaimed dividends paid	24 (b)	(7,321)	(3,988)
<b>Net cash used in financing activities</b>		<b>(7,603,250)</b>	<b>(9,092,026)</b>
<b>Increase in cash and cash equivalents</b>		<b>2,368,388</b>	<b>759,159</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of year		9,009,756	8,250,597
Increase		2,368,388	759,159
<b>At end of year</b>	20	<b>11,378,144</b>	<b>9,009,756</b>

The Notes on pages 106 to 134 form an integral part of these financial statements.  
Independent auditors' report - page 101.

# NOTES TO THE FINANCIAL STATEMENTS

(In the notes all amounts are shown in Sri Lanka Rupees thousands unless otherwise stated)

## 1 GENERAL INFORMATION

### Company

Ceylon Tobacco Company PLC ('the Company') is a public limited company domiciled in Sri Lanka. The principal operations of the Company are manufacturing, marketing and selling 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 Holding (Sri Lanka) BV.

### Other interests

#### (a) Outreach Projects (Guarantee) Limited

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

A separate entity was formed to ensure good governance and accountability. The activities of Outreach Projects (Guarantee) Limited are wholly funded by Ceylon Tobacco Company PLC. The main activity of Outreach Projects (Guarantee) Limited is to support families living below the poverty line for 2 ½ years, to develop their own home gardens and there by these beneficiaries to achieve self-sustenance through this programme. This programme has touched the lives of 18,064 families and 69,676 beneficiaries in 16 districts of the country.

The assets and liabilities of Outreach Projects (Guarantee) Limited are not included in the financial statements of Ceylon Tobacco Company PLC. The Company has contributed Rs. 32 million (2014 - Rs. 45 million) to Outreach Projects (Guarantee) Limited in 2015. Ceylon Tobacco Company PLC will not be held liable for any loss from its interests in Outreach Projects (Guarantee) Limited. Ceylon Tobacco Company PLC will continue to support Outreach in all its future endeavours and have a planned contribution of Rs. 164 million for the next three years (2016-2018).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The Company prepares the financial statements in accordance with the Sri Lanka Accounting Standards ('SLFRS/LKAS') issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No. 19 of 1995.

The preparation of financial statements in conformity with SLFRS/LKAS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

### 2.2 Changes in accounting policy and disclosures

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

No new standards and amendments that apply for the first time to financial reporting period commencing on or after 1 January 2015 were adopted by the Company, as these amendments did not have any impact to the current period, or any prior period and is not likely to affect future periods.

#### (b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2015 and not early adopted

SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The main

change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the Income Statement, unless this creates an accounting mismatch. The Company is yet to assess SLFRS 9's full impact and intends to adopt SLFRS 9 no later than the accounting period beginning on or after 1 January 2018.

SLFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the goods and services. The standard replaces LKAS 18 'Revenue' and LKAS 11 'Construction contracts' and related interpretations. The Company is yet to assess SLFRS 15's full impact and intends to adopt SLFRS 15 no later than the accounting period beginning on or after 1 January 2017.

Other amendments issued but not early adopted are not expected to have material impact on the financial statements of the Company.

## 2.3 Segmental reporting

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

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

## 2.4 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the

primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency.

### (b) Transactions and balances

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

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

## 2.5 Property, plant and equipment

All property, plant and equipment are initially recorded at cost and stated at historical cost less depreciation. 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 Statement of Comprehensive Income during the financial period in which they are incurred.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

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

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	5	years
Office equipment	5	years
IT equipment	3	years
Household equipment	3	years
Vehicle and accessories	4	years
Lab equipment	10	years
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. The residual value of certain asset categories were written off to align residual value of all assets under each asset category.

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

#### 2.6 Intangible assets

Intangible assets wholly consist of cost of computer software. Costs associated with maintaining computer software programs are recognised as an expense when incurred. Development costs that are directly

attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

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

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

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

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

#### 2.7 Impairment of non-financial assets

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

## 2.8 Financial assets

### 2.8.1 Classification

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

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

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

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position (Notes 2.13 and 2.14).

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

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

#### (d) Held to maturity

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

### 2.8.2 Recognition and measurement

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

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

## 2.9 Offsetting financial instruments

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

## 2.10 Impairment of financial assets

### (a) Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

#### 2.10 Impairment of financial assets (contd)

(a) *Assets carried at amortised cost (contd)*

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 Comprehensive Income. If a loan or held to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

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

(b) *Assets classified as available for sale*

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

#### 2.11 Financial liabilities

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

#### 2.12 Inventories

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

#### 2.13 Trade receivables

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

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

Impairment testing of trade receivables is described in Note 2.10.

#### 2.14 Cash and cash equivalents

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

#### 2.15 Stated capital

Ordinary shares are classified as equity.

#### 2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within

one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

## 2.17 Current taxes and deferred income taxes

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Sri Lanka where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the Statement of Financial Position. Deferred income 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 income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to

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

## 2.18 Employee benefits

### (a) Defined benefit plan

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

The liability recognised in the Statement of Financial Position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of long term Government bonds.

The current service cost of the defined plan, recognised in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation resulting from employee service in the current year, benefit changes, curtailments and settlements.

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

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

### (b) Defined contribution plan

For defined contribution plans, such as the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF), the Company contributes 1.5% to EPF and 3% to ETF, of the employees' basic or consolidated wage or salary.

## NOTES TO THE FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTD)

#### 2.18 Employee benefits (contd)

(b) **Defined contribution plan (contd)**

The Company has no further payment obligations once the contributions have been paid. All local employees of the Company are members of these defined contribution plans. Contributions are recognised as employee benefits expense when they are due.

(c) **Short term employee benefits**

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

(d) **Share based payments**

The Company has no share ownership plans. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers 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 split into two components. Half the award is paid at the date of grant based on the share price of the BAT Plc share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of three years from the date of grant based on the share price preceding the date of payment. The cash obligation is with CTC.

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

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

This benefit is included under the employee benefit expense.

#### 2.19 Provisions

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

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

#### 2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Company's activities, as described below. The Company bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **Sale of goods**

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

(b) **Interest income**

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

and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

## 2.21 Leases

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

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

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

## 2.22 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.

## 2.23 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.

## 3 FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

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

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

#### (a) Market risk

##### (i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and the Great Britain Pound. Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities 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	
	2015	2014
US Dollar (USD)	136.06	132.16
Great Britain Pound (GBP)	207.90	207.32
Euro (EUR)	150.97	165.07

## NOTES TO THE FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (CONTD)

#### 3.1 Financial risk factors (contd)

##### (a) Market risk (contd)

##### (i) Foreign exchange risk (contd)

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result in Rs. 47 million impact on pre-tax profit.

##### (ii) Price risk

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

##### Equity price risk

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

##### Commodity price risk

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

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

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

##### (b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge a contractual obligation. Credit

risk mainly arises from trade debtors, advances and cash and cash equivalents. Group treasury guidelines are followed for managing cash and cash equivalents while short term investment decisions are taken after proper review by the 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:

	As at 31 December	
	2015	2014
Trade receivables [Note 19]	715,615	763,566
Staff Loans [Note 19]	305,977	211,249
Other receivables [Note 19]	41,884	43,928
Advances to farmers [Note 19]	22,260	-
	<b>1,085,736</b>	<b>1,018,743</b>
Cash and cash equivalents [Note 20]	<b>11,378,144</b>	<b>9,009,756</b>
	<b>12,463,880</b>	<b>10,028,499</b>

##### (c) Liquidity risk

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

The Company's management monitors rolling forecasts of the liquidity position, expressed in cash and cash equivalents on the basis of expected cash flow and ensure access to short term 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 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
<b>At 31 December 2015</b>			
Trade and other payables(excl. statutory liabilities)	(169,978)	(119,963)	-
<b>At 31 December 2014</b>			
Trade and other payables (ex statutory liabilities)	(280,622)	(32,844)	-

### 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 2015, the Company's strategy, which was unchanged from 2014, was to be fully equity funded and have no external borrowings.

## 4 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

### 4.1 Critical accounting estimates and assumptions

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

#### (a) Defined benefit plan

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

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

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information is disclosed in note 16.

#### (b) Income taxes

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

## NOTES TO THE FINANCIAL STATEMENTS

### 5 SEGMENT INFORMATION

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

	Year ended 31 December	
	2015	2014
<b>Geographical analysis of gross turnover</b>		
Domestic	106,221,191	87,531,494
Export	269,395	368,985
	<b>106,490,586</b>	<b>87,900,479</b>
<b>Geographical analysis of net results (profit for the year)</b>		
Domestic	10,574,391	8,544,326
Export	59,937	74,389
	<b>10,634,328</b>	<b>8,618,715</b>

#### Assets

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

#### Entity-wide information

Gross revenues of approximately Rs. 39,714 million (2014 Rs 33,321 million) are derived from three (2014 - three) external customers, who individually contribute to more than 10% of domestic sales.

### 6 GROSS REVENUE

	Year ended 31 December	
	2015	2014
Local revenue	106,221,191	87,531,494
Export revenue	269,395	368,985
<b>Gross revenue</b>	<b>106,490,586</b>	<b>87,900,479</b>
<b>Government levies</b>		
Excise special provision tax	(80,359,074)	(58,136,140)
Tobacco tax	(32,026)	(27,767)
Value added tax	-	(7,618,924)
Nation building tax	-	(378,488)
<b>Total government levies</b>	<b>(80,391,100)</b>	<b>(66,161,319)</b>
<b>Net revenue</b>	<b>26,099,486</b>	<b>21,739,160</b>

Chargeability to Value Added Tax and Nation Building Tax on the sale of cigarettes was removed effective from 25 October 2014 and consolidated into Excise (Special Provisions) Duty from the same date. These amendments were introduced through the National Budget presented by the Government of Sri Lanka in 2014 and certified on the 30 October 2015 via Value Added Tax (Amendment Act) No 11 of 2015 and Nation Building Tax (Amendment Act) No 12 of 2015.

## 7 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2015	2014
Executive Directors' emoluments	74,118	111,074
Salaries and wages	1,171,128	979,110
Defined contribution plans	79,335	80,034
Provision for voluntary separation scheme [(a) below]	120,168	30,144
Defined benefit obligations [Note 16]	(26,343)	(33,517)
	<b>1,418,406</b>	<b>1,166,845</b>

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

## 8 OTHER OPERATING INCOME

	Year ended 31 December	
	2015	2014
Profit on disposal of property, plant and equipment	10,203	5,080
Sundry sales / gains	12,962	10,910
	<b>23,165</b>	<b>15,990</b>

## 9 OPERATING PROFIT

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

	Year ended 31 December	
	2015	2014
Auditors' remuneration		
Audit fees	3,810	3,664
Audit related services fees and expenses	250	250
Non-audit fees	-	-
Legal fees	69,266	64,381
Administrative expenses	957,973	756,931
Donation and CSI expenses	46,563	44,521
Technical and advisory fees	512,653	548,486
Write-off on property, plant and equipment	-	440
Provision for obsolete inventories	-	7,994
Provision for doubtful debts	6,343	1,944
Repairs and maintenance	105,724	45,836

## NOTES TO THE FINANCIAL STATEMENTS

### 10 NET FINANCE INCOME

	Year ended 31 December	
	2015	2014
Interest income		
- Interest income from bank deposits	561,250	403,125
<b>Finance income</b>	<b>561,250</b>	<b>403,125</b>
Interest expenses		
- Overdrafts	-	(161)
<b>Finance costs</b>	<b>-</b>	<b>(161)</b>
<b>Net finance income</b>	<b>561,250</b>	<b>402,964</b>

### 11 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	
	2015	2014
Current tax on profit for the year	7,383,956	5,914,909
Deferred income tax [Note 22]	60,025	52,966
	<b>7,443,981</b>	<b>5,967,875</b>

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

	Year ended 31 December	
	2015	2014
Profit before tax	18,078,309	14,586,590
Tax calculated at tax rate of 40%	7,231,324	5,834,636
Tax effects of:		
Tax on expenses not deductible for tax purposes	401,472	287,867
Tax on expenses deductible for tax purposes	(168,086)	(141,296)
Tax effect on rate differentials	(20,729)	(13,332)
<b>Tax charge</b>	<b>7,443,981</b>	<b>5,967,875</b>

Domestic sales constitute of 99.7% of total sales. Therefore no detailed reconciliation is presented on the effect of effective tax rates for export sales and leaf exports. The effective tax rate on interest income is also excluded.

## 12 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	
	2015	2014
Net profit attributable to shareholders	10,634,328	8,618,715
Weighted average number of ordinary shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs.)	56.77	46.01
Diluted earning per share (Rs.)	56.77	46.01

## 13 SUPER GAIN TAX

As per the provisions of the Part III of the Finance Act, No 10 of 2015 certified on 30 October 2015, the Company was liable for Super Gain Tax of Rs. 3,810 million. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment 2013/2014. The Act supersedes the requirements of the Sri Lanka Accounting Standards. Hence, the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015, as an adjustment to the opening retained earnings reported in the Statement of Changes in Equity. Super Gain Tax of Rs. 3,810 million was paid in 3 equal instalments on the dates stipulated in the Act during the quarter ended 31 December 2015.

## NOTES TO THE FINANCIAL STATEMENTS

### 14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Freehold Buildings	Capital work in progress	Building improvements /upgrade	Leasehold buildings	Machinery equipment	Motor vehicles	Total
<b>Cost</b>								
At 1 January 2014	96,941	325,348	80,349	117,028	28,994	3,411,264	59,331	4,119,255
Additions	-	-	286,521	-	-	24,674	-	311,195
Disposals	-	-	-	-	-	-	(8,534)	(8,534)
Transfers	-	-	(71,178)	-	-	71,178	-	-
Write-offs	-	-	-	-	-	(22,933)	-	(22,933)
<b>At 31 December 2014</b>	<b>96,941</b>	<b>325,348</b>	<b>295,692</b>	<b>117,028</b>	<b>28,994</b>	<b>3,484,183</b>	<b>50,797</b>	<b>4,398,983</b>
<b>Accumulated depreciation</b>								
At 1 January 2014	-	201,677	-	42,988	28,187	2,193,712	53,398	2,519,962
Charge for the year	-	5,159	-	11,349	91	184,159	-	200,758
Disposals	-	-	-	-	-	-	(7,681)	(7,681)
Adjustments	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	(22,493)	-	(22,493)
<b>At 31 December 2014</b>	<b>-</b>	<b>206,836</b>	<b>-</b>	<b>54,337</b>	<b>28,278</b>	<b>2,355,378</b>	<b>45,717</b>	<b>2,690,546</b>
<b>Closing net book amount</b>	<b>96,941</b>	<b>118,512</b>	<b>295,692</b>	<b>62,691</b>	<b>716</b>	<b>1,128,805</b>	<b>5,080</b>	<b>1,708,437</b>
<b>Cost</b>								
At 1 January 2015	96,941	325,348	295,692	117,028	28,994	3,484,183	50,797	4,398,983
Additions	-	4,220	494,572	45,021	-	17,500	-	561,313
Disposals	-	-	-	-	-	-	(13,807)	(13,807)
Transfers	-	-	(290,184)	-	-	290,184	-	-
Write-offs	-	-	-	-	-	(32,438)	-	(32,438)
<b>At 31 December 2015</b>	<b>96,941</b>	<b>329,568</b>	<b>500,080</b>	<b>162,049</b>	<b>28,994</b>	<b>3,759,429</b>	<b>36,990</b>	<b>4,914,051</b>
<b>Accumulated depreciation</b>								
At 1 January 2015	-	206,836	-	54,337	28,278	2,355,378	45,717	2,690,546
Charge for the year	-	5,159	-	13,533	92	185,432	-	204,216
Disposals	-	-	-	-	-	-	(12,426)	(12,426)
Adjustments	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	(31,082)	-	(31,082)
<b>At 31 December 2015</b>	<b>-</b>	<b>211,995</b>	<b>-</b>	<b>67,870</b>	<b>28,370</b>	<b>2,509,728</b>	<b>33,291</b>	<b>2,851,254</b>
<b>Closing net book amount</b>	<b>96,941</b>	<b>117,573</b>	<b>500,080</b>	<b>94,179</b>	<b>624</b>	<b>1,249,701</b>	<b>3,699</b>	<b>2,062,797</b>

- (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. 1,936,193 (2014 - 1,736,223)
- (b) Depreciation expenses of Rs. 204,216 (2014 - 200,758) has been charged to the Statement of Comprehensive Income.

## 14.1 Company Property

The freehold land and buildings were valued by professional valuer Mr. R. W. M. S. B. Rajapakse. The values reported below are the market values of the respective properties as at 31 December 2015.

The Company follows the cost model as stated in its accounting policy to measure the property, plant and equipment. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs. 2,909,200,000.

Asset Type	Property Location	Extent of Land			Revalued Amount Rs. '000
		A	R	P	
Land and Buildings	Colombo Head Office Factory	7	2	22.50	2,000,000
Land and Buildings	Kandy Industrial premises	5	0	26.28	458,000
Land and Buildings	Kandy commercial premises	2	1	18.75	152,500
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50	13,000
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50	36,000
Land and Buildings	Nildanhinna depot, stores and quarters	2	1	4.00	15,450
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00	9,000
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25	26,500
Land and Buildings	Ambale depot, stores and quarters	2	0	9.66	6,250
Land and Buildings	Wendaruwa quarters	0	2	0.00	2,500
Land and Buildings	Galewela depot, stores and quarters	5	3	39.87	73,000
Land and Buildings	Hunnasgiriya quarters	0	2	0.00	800
Land and Buildings	Kabifigollawa	3	0	0.00	4,800
Land and Buildings	Walapane	2	0	3.00	2,500
Land and Buildings	Nuwara'eliya	0	1	31.30	68,000
Land	Kalagedihena	1	2	22.00	36,500
Land	Naula	0	0	21.00	4,400

## NOTES TO THE FINANCIAL STATEMENTS

### 15 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 2.6

	As at 31 December	
	2015	2014
<b>Cost</b>		
At 1 January	110,979	110,979
Additions	1,586	-
At 31 December	112,565	110,979
<b>Amortisation</b>		
At 1 January	93,235	83,336
Amortisation during the year	10,086	9,899
At 31 December	103,321	93,235
<b>Net book value</b>	<b>9,244</b>	<b>17,744</b>

### 16 POST EMPLOYMENT BENEFITS

#### (a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 1.4 million (2014 - Rs. 2.2 million) is not funded and has been provided for in the books of the Company.

#### (b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 273 (2014 - 275) 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 'Plan asset').

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

	As at 31 December	
	2015	2014
Present value of funded obligation	620,781	526,665
Fair value of plan assets	(1,153,434)	(1,116,389)
Surplus of funded plans	(532,653)	(589,724)
Present value of unfunded obligations	1,376	2,189
<b>Asset in the Statement of Financial Position</b>	<b>(531,277)</b>	<b>(587,535)</b>

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

	Present value of obligation	Fair value of plan assets	Total
<b>At 1 January 2014</b>	<b>465,550</b>	<b>(1,059,900)</b>	<b>(594,350)</b>
Current service cost	36,278	-	36,278
Interest expense / (income)	49,729	(119,524)	(69,795)
	86,007	(119,524)	(33,517)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(13,625)	(13,625)
- Loss from change in financial assumptions	19,047	-	19,047
- Experience gains	34,910	-	34,910
	53,957	(13,625)	40,332
Contributions:	-	-	-
Payments from plans:	(76,660)	76,660	-
<b>At 31 December 2014</b>	<b>528,854</b>	<b>(1,116,389)</b>	<b>(587,535)</b>
<b>At 1 January 2015</b>	<b>528,854</b>	<b>(1,116,389)</b>	<b>(587,535)</b>
Current service cost	38,527	-	38,527
Interest expense / (income)	53,273	(118,143)	(64,870)
	91,800	(118,143)	(26,343)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(3,627)	(3,627)
- (Gain)/loss from change in financial assumptions	(3,624)	-	(3,624)
- Experience (gains)/loss	90,666	-	90,666
	87,042	(3,627)	83,415
Contributions:	-	-	-
Payments from plans:	(85,538)	84,725	(813)
<b>At 31 December 2015</b>	<b>622,157</b>	<b>(1,153,434)</b>	<b>(531,277)</b>

The principal assumptions the Company used are as follows:

	As at 31 December	
	2015	2014
Discount rate per annum	10.10%	11.00%
Annual salary increment rate	11.00%	12.00%

## NOTES TO THE FINANCIAL STATEMENTS

### 16 POST EMPLOYMENT BENEFITS (CONTD)

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(36,911)	42,077
Annual salary increment rate	1.00%	38,570	(36,960)

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

### 17 FINANCIAL INSTRUMENTS

#### (a) Financial instrument by category

As at 31 December 2014

	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
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#### Assets as per Statement of Financial Position

Trade and other receivables excluding pre-payments	1,043,123	-	-	1,043,123
Cash and cash equivalents	9,009,756	-	-	9,009,756
<b>Total</b>	<b>10,052,879</b>	<b>-</b>	<b>-</b>	<b>10,052,879</b>

	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
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#### Liabilities as per Statement of Financial Position

Trade and other payables excluding non financial liabilities	-	7,123,784	7,123,784
<b>Total</b>	<b>-</b>	<b>7,123,784</b>	<b>7,123,784</b>

As at 31 December 2015

	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
<b>Assets as per Statement of Financial Position</b>				
Trade and other receivables excluding pre-payments	979,955	-	-	979,955
Cash and cash equivalents	11,378,144	-	-	11,378,144
<b>Total</b>	<b>12,358,099</b>	<b>-</b>	<b>-</b>	<b>12,358,099</b>

	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
<b>Liabilities as per Statement of Financial Position</b>			
Trade and other payables excluding non financial liabilities	-	10,374,375	10,374,375
<b>Total</b>	<b>-</b>	<b>10,374,375</b>	<b>10,374,375</b>

(b) Credit quality of financial assets

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

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

Cash at bank	Rating	As at 31 December	
		2015	2014
	AAA (lka)	11,252,084	8,915,558
	AA+ (lka)	6,996	52,753
	AA (lka)	6,666	39,231
	A- (lka)	109,485	529
	AA- (lka)	2,813	1,534
<b>Total cash at bank and the short term deposits</b>		<b>11,378,044</b>	<b>9,009,605</b>

(ii) Trade receivable

	As at 31 December	
	2015	2014
New Customers	-	-
Existing customers less than 6 months	715,615	763,566
	<b>715,615</b>	<b>763,566</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 18 INVENTORIES

	As at 31 December	
	2015	2014
Raw materials	1,654,652	2,095,985
Work-in-progress	30,274	21,014
Finished goods	1,688,566	746,300
Consumables	213,517	256,874
Provision for obsolete and slow moving inventories	(54,772)	(55,318)
	<b>3,532,237</b>	<b>3,064,855</b>

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 materials are provided for based on their shelf life.

### 19 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2015	2014
<b>Current</b>		
Trade receivables	715,615	763,566
Receivables from related parties [Note 29 (iii)]	88,470	80,511
Advances to farmers	22,260	-
Staff loans	167,633	77,515
Other receivables	41,884	43,928
Less: provision for impairment of other receivables	(16,151)	(9,808)
	<b>1,019,711</b>	<b>955,712</b>
<b>Non-current</b>		
Receivables (staff loans)	138,344	133,734
<b>Total trade and other receivables</b>	<b>1,158,055</b>	<b>1,089,446</b>

- (i) Trade receivables wholly consist of amounts receivable from distributors.
- (ii) Trade receivables as at 31 December 2015 of Rs. 716 million (2014 - Rs. 764 million) are fully performing.
- (iii) Provision for doubtful debts has been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.

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

	As at 31 December	
	2015	2014
Trade receivables	715,615	763,566
Receivables from related parties [Note 29 (iii)]	88,470	80,511
Advances to farmers	22,260	-
Staff loans	305,977	211,249
Other receivables	41,884	43,928
Less: provision for impairment of other receivables	(16,151)	(9,808)
	<b>1,158,055</b>	<b>1,089,446</b>

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

	As at 31 December	
	2015	2014
At 1 January	9,808	7,864
Provision for the period	7,904	3,479
Write-offs during the period	(318)	-
Reversals during the period	(1,243)	(1,535)
At 31 December	<b>16,151</b>	<b>9,808</b>

## 20 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
Cash at bank and in hand	11,378,144	9,009,756
Short term investments	-	-
Cash and cash equivalents (excluding bank overdrafts)	<b>11,378,144</b>	<b>9,009,756</b>

## 21 STATED CAPITAL

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

All issued shares are fully paid.

## NOTES TO THE FINANCIAL STATEMENTS

### 22 DEFERRED INCOME TAX LIABILITIES

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

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

	As at 31 December	
	2015	2014
At beginning of the year	348,184	295,218
Charge for the year [Note 11]	60,025	52,966
<b>At end of the year</b>	<b>408,209</b>	<b>348,184</b>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. 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 2014	(296,094)	876	(295,218)
Charged to the statement of comprehensive income	(52,966)	-	(52,966)
<b>At 31 December 2014</b>	<b>(349,060)</b>	<b>876</b>	<b>(348,184)</b>
Balance as at 1 January 2015	(349,060)	876	(348,184)
Charged to the statement of comprehensive income	(59,699)	(326)	(60,025)
<b>At 31 December 2015</b>	<b>(408,759)</b>	<b>550</b>	<b>(408,209)</b>

### 23 TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
Trade payables	305,583	480,497
Payable to related parties [Note 29 (iii)]	1,338,859	1,177,474
Accrued expenses	2,497,993	1,604,884
Other payables	6,231,940	3,860,929
	<b>10,374,375</b>	<b>7,123,784</b>

Other payables of the Company include excise special provision tax payable amounting to Rs. 6,200 million (2014 Rs. 3,771 million).

## 24 DIVIDENDS PAYABLE

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

	As at 31 December	
	2015	2014
At 1 January	824,224	955,351
Dividend declared [Note (c)]	7,764,570	9,000,906
Dividend paid	(7,595,929)	(9,088,038)
Payments/transfers to unclaimed dividend [Note (b)]	(56,247)	(43,995)
<b>At 31 December</b>	<b>936,618</b>	<b>824,224</b>

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

	As at 31 December	
	2015	2014
At 1 January	157,265	122,733
Transfers	56,247	43,995
Payments	(7,321)	(3,988)
Write back	(10,884)	(5,475)
<b>At 31 December</b>	<b>195,307</b>	<b>157,265</b>

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

	2015		2014	
	per share	Rs.	per share	Rs.
Final dividend - 2014/2013	-	-	8.55	1,601,618
First interim - 2015/2014	3.45	646,267	10.80	2,023,097
Second interim - 2015/2014	24.00	4,495,771	13.20	2,472,673
Third interim - 2015/2014	9.00	1,685,914	11.10	2,079,294
Fourth interim - 2015/2014	5.00	936,618	4.40	824,224
	<b>41.45</b>	<b>7,764,570</b>	<b>48.05</b>	<b>9,000,906</b>

## 25 NET ASSETS PER SHARE

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

	As at 31 December	
	2015	2014
Net assets attributable to shareholders	2,885,486	3,898,445
Weighted average number of shares in issue	187,323,751	187,323,751
<b>Net assets per share (Rs)</b>	<b>15.40</b>	<b>20.81</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 26 CONTINGENT LIABILITIES

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

- (a) Guarantees issued to Commissioner General of Excise in lieu of obtaining certificate of registration in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 Rs. 500 million (2014- Rs. 500 million).
- (b) Shipping Guarantees has been issued amounting to Rs. 21.2 million (2014 - Rs. 15.9 million), 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.

### 27 COMMITMENTS

#### Capital commitments

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

#### Financial commitments

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

#### Operating lease commitments - Company as lessee

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

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

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

	As at 31 December	
	2015	2014
Less than 1 year	139,641	94,461
More than 1 year and less than 5 years	176,697	163,611
More than 5 years	-	2,909
<b>Total</b>	<b>316,338</b>	<b>260,981</b>

Expenses relating to operating leases during the year

	Year ended 31 December	
	2015	2014
Minimum lease payments	162,466	113,442
Contingent rentals	-	-
Sub - leases	-	-
	<b>162,466</b>	<b>113,442</b>

## 28 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2015	2014
Profit before tax	18,078,309	14,586,590
Adjustments for:		
Depreciation [Note 14]	204,216	200,758
Amortisation of intangible assets [Note 15]	10,086	9,899
Write off of debts	1,356	-
Interest expense [Note 10]	-	161
Interest received [Note 10]	(561,250)	(403,125)
Notional interest income	(447)	(1,786)
Net interest on retirement benefit obligation [Note 16]	(26,343)	(33,517)
Provision for obsolete inventories and doubtful debts	5,798	9,938
Gain on disposal of property, plant and equipment [Note 8]	(10,203)	(5,080)
Changes in working capital :		
- inventories	(466,836)	(110,473)
- receivables	(74,506)	641,755
- trade and other payables	3,249,777	900,907
<b>Cash generated from operations</b>	<b>20,409,957</b>	<b>15,796,027</b>

## 29 RELATED PARTY TRANSACTIONS

### Transactions with related parties

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

The following transactions were carried out with related parties:

(i) Sale of goods/ services

	Year ended 31 December	
	2015	2014
British American Shared Services (GSD) Limited	11,726	-
BAT Singapore Private Limited	22,394	-
BAT Marketing (Singapore) Private Limited	198,452	261,019
BAT Uganda	1,584	-
	<b>234,156</b>	<b>261,019</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 29 RELATED PARTY TRANSACTIONS (CONTD)

#### Transactions with related parties (contd)

(ii) Purchase of goods/ services

	Year ended 31 December	
	2015	2014
BAT (Hamburg International) GmbH	22,474	8,267
BAT AsPac Service Centre Sdn Bhd	68,250	117,001
BAT Investments Limited	512,653	548,780
Benson & Hedges (Overseas) Limited	8,183	-
BAT Asia Pacific Region Limited	41,869	-
BAT Japan Limited	1,890	-
BAT Korea Limited	15,170	5,265
BAT International Limited	-	2,997
BAT (Holdings) Limited	75,182	29,081
British American Shared Services (GSD) Limited	608,350	592,576
BAT Souza Cruz S.A	11,004	16,878
BAT Marketing (Singapore) Private Limited	227,532	-
Tobacco Importers & Manufacturers Sdn Berhad	9,399	4,083
BAT SAA Service (Private) Limited	89,527	-
BAT Singapore Private Limited	201,554	207,067
	<b>1,893,037</b>	<b>1,531,995</b>

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

	As at 31 December	
	2015	2014
<b>Receivable from related parties [Note 19]</b>		
British American Shared Services (GSD) Limited	11,726	-
Pakistan Tobacco Company Limited	5,526	5,526
BAT Singapore Private Limited	22,394	-
BAT Marketing (Singapore) Private Limited	47,240	74,985
BAT Uganda	1,584	-
	<b>88,470</b>	<b>80,511</b>

	As at 31 December	
	2015	2014
<b>Payable to related parties [Note 23]</b>		
BAT Investments Limited	105,811	423,865
BAT AsPac Service Centre Sdn Bhd	103,439	50,084
BAT (Hamburg International) GmbH	22,474	8,267
BAT (Holdings) Limited	46,241	25,649
Tobacco Importers & Manufacturers Sdn Berhad	8,781	4,083
BAT Singapore Private Limited	146,877	116,746
BAT Marketing (Singapore) Private Limited	5,481	-
British American Shared Services (GSD) Limited	850,094	548,780
BAT Souza Cruz S.A	2,505	-
Benson & Hedges (Overseas) Limited	3,397	-
BAT Asia Pacific Region Limited	41,869	-
BAT Japan Limited	1,890	-
	<b>1,338,859</b>	<b>1,177,474</b>

Related parties on (I), (II) and (III) above, are Companies within the same Group (British American Tobacco Plc).

(iv) **Key management compensation**

Key management includes Directors (executive and non-executive). The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December	
	2015	2014
Salaries and other short-term employee benefits	115,447	119,705
Share based payments	3,335	12,973

(v) **Post-employment benefits**

	Year ended 31 December	
	2015	2014
Ceylon Tobacco Company Group Provident Fund	66,030	58,843

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

## NOTES TO THE FINANCIAL STATEMENTS

### 30 EMPLOYEE SHARE OPTION SCHEME

The Company has no share ownership plans. However, the BAT Group through an International Executive Incentive Scheme ('IEIS') offers 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 split into two components. Half the award is paid at the date of grant based on the share price of the BAT Plc share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

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

As at 31 December 2015, the fair value of the phantom shares granted was Rs. 12 million, which was determined using 'Black-Scholes' valuation method.

### 31 EVENTS AFTER THE REPORTING PERIOD

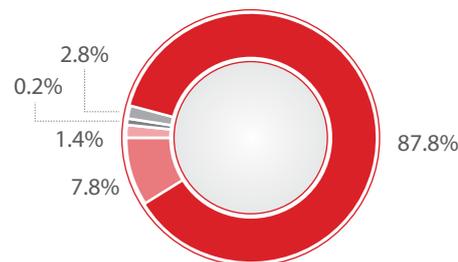
No material events have occurred since the end of the reporting date which would require adjustments to, or disclosure in the financial statements.

## STATEMENT OF VALUE ADDED

	2015	2014
	Rs.000s	Rs.000s
Gross revenue	106,490,586	87,900,479
Supplied materials & services	(6,972,884)	(6,194,022)
Net interest income	561,250	402,964
Other operating income	23,165	15,990
	<b>100,102,117</b>	<b>82,125,411</b>
State *	87,835,081	72,129,194
Shareholders	7,764,570	7,399,288
Employees	1,418,406	1,166,845
Depreciation	214,302	210,657
Retained Profit	2,869,758	1,219,427
	<b>100,102,117</b>	<b>82,125,411</b>

\* excluding Super Gain Tax of Rs. 3,810 million, partially funded through brought forward retained earnings with which total contribution to Government is Rs. 91,645 million.

Statement of value added



● State \*    ● Shareholders    ● Employees  
● Depreciation    ● Retained profit

# SHAREHOLDER INFORMATION

## ORDINARY SHAREHOLDING

Stated Share 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 2015	3,616 (2014 -3,627)

## 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	2,491	538,435	0.29	34	10,924	0.01	2,525	549,359	0.29
1001-10,000	914	2,618,343	1.40	45	191,131	0.10	959	2,809,474	1.50
10,001-100,000	76	2,062,290	1.10	33	1,332,257	0.71	109	3,394,547	1.81
100,001-1,000,000	3	523,349	0.28	16	4,064,522	2.17	19	4,587,871	2.45
Over 1,000,000	-	-	-	4	175,982,500	93.95	4	175,982,500	93.95
<b>Total</b>	<b>3,484</b>	<b>5,742,417</b>	<b>3.07</b>	<b>132</b>	<b>181,581,334</b>	<b>96.93</b>	<b>3,616</b>	<b>187,323,751</b>	<b>100.00</b>

## COMPUTATION OF % OF PUBLIC SHAREHOLDING

	31-Dec-15 No of Shares	31-Dec-14 No of Shares
<b>Parent Company</b>		
British American Tobacco Holding (Sri Lanka) BV	157,590,931	157,590,931
	<b>157,590,931</b>	<b>157,590,931</b>
<b>Directors shareholding (including spouses &amp; children)</b>		
S.C.Ratnayake	644	644
Felicio Ferraz (Managing Director & CEO)	-	-
	<b>644</b>	<b>644</b>
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
	<b>187,323,751</b>	<b>187,323,751</b>
Number of shareholders holding the public holding	3,614	3,625
Public Holding as a % of issued number of shares	15.87	15.87
Market capitalisation of public holding (Rs. million)	29,509	31,519

	No of Shares	%	No of Shareholders	%
Individuals	5,729,488	3.06	3,421	94.61
Institutions	181,594,263	96.94	195	5.39
	<b>187,323,751</b>	<b>100.00</b>	<b>3,616</b>	<b>100.00</b>

## CTC SHARE PERFORMANCE AT COLOMBO STOCK EXCHANGE (CSE)

Reuters' code CTC,CM

Year	2015	2014
No of share transactions for the year	2,807	3,838
No of Shares traded	2,389,225	2,000,947
<b>Price Movements Rs.</b>		
Highest	1,124.00	1,349.00
Lowest	881.00	960.00
Closing Price	992.50	1,060.10
Market Capitalisation (Rs. million)	185,919	198,582

## SHAREHOLDER INFORMATION

### 20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2013

	31-Dec-15		31-Dec-14	
	No. of Shares	%	No of Shares	%
British American Tobacco Holding (Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
FTR Holdings SA	15,585,910	8.32	15,585,910	8.32
Pershing LLL SA Averbach Grauson & Co.	1,654,700	0.88	1,654,700	0.88
HSBC INTL NOM Ltd - SSBT-Wasatch Frontier	1,150,959	0.61	1,217,442	0.65
HSBC INTL NOM LTD-State Street London	737,546	0.39	-	0.00
HSBC INT NOM LTD - Coupland Cardiff Funds PLC	437,070	0.23	1,019,978	0.54
RBC Investor Services Bank-COELI SICAV	358,461	0.19	345,137	0.18
Mrs Jasbinderjit Kaur Piara Singh	312,063	0.17	317,063	0.17
CB NY S/A Wasatch Frontier	283,590	0.15	183,590	0.10
HSBC INTL NOM LTD-JPMCB	251,466	0.13	315,966	0.17
HSBC International Nominees Ltd/Morgan Stanley & Co Intl PLC	247,549	0.13	-	0.00
Miss Neesha Harnam	238,000	0.13	271,783	0.15
Bank of Ceylon No 1 Account	230,778	0.12	-	0.00
Harnam Holdings SDN BHD	230,043	0.12	232,495	0.12
HSBC INTL NOM Ltd - SSBT-Deutsche Bank	195,600	0.10	195,600	0.10
Seylan Bank PLC / Channa Nalin Rajamoney	154,036	0.08	254,100	0.14
HSBC INTL NOM Ltd - UBS AG - Singapore	150,000	0.08	150,000	0.08
HSBC INTL NOM Ltd - SSBT-Julius Baer	150,000	0.08	150,000	0.08
A I A Insurance Lanka PLC	138,535	0.07	207,125	0.11
HSBC INTL NOM Ltd-Parametric Emerging Markets	133,931	0.07	-	0.00
<b>Sub Total</b>	<b>180,231,168</b>	<b>96.21</b>	<b>179,691,820</b>	<b>95.93</b>
Others	7,092,583	3.79	7,631,931	4.07
<b>Total Shares</b>	<b>187,323,751</b>	<b>100.00</b>	<b>187,323,751</b>	<b>100.00</b>

## NOTICE OF MEETING

NOTICE IS HEREBY given that the Eighty Fifth 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 Thursday , 31 March 2016 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 2015 and the Report of the Auditors thereon.
- (ii) To declare a Final Dividend.
- (iii) To re-elect the following Directors.
  - ★ To re-elect Dinesh Weerakkody who comes up for retirement by rotation.
  - ★ To re-elect Javed Iqbal who comes up for retirement by rotation.
  - ★ To re-elect Shigeki Endo who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
  - ★ To re-elect Michael Koest who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.

- (iv) To authorise the Directors to determine and make donations.
- (v) To Appoint Messrs KPMG as the Company's Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board



**Ranjan Seneviratne**  
Company Secretary

18 February 2016

## NOTICE OF MEETING

### NOTES

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

### **IMPORTANT**

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

1. Admission will only be granted on the production of the National Identity Card/Passport/ Driving Licence.
2. All persons entering the premises will be subject to a security check.
3. No person will be allowed to bring any parcel into the premises.
4. Vehicles are to be 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
Shigeki Endo	whom failing
Javed Iqbal	whom failing
Kenneth Allen	whom failing
Premila Perera	whom failing
Dinesh Weerakkody	

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 Thursday, 31st March 2016 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 31st December 2015	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Dinesh Weerakkody who comes up for retirement by rotation	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Javed Iqbal who comes up for retirement by rotation	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect Shiheki Endo who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect Michael Koest who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To authorise the Directors to determine and make donations	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To Appoint Messrs KPMG as the Company's Auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>

.....

Signature

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

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/she thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (\*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If the Form of Proxy is signed by an Attorney, the relevant Power-of- Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No. 178, Srimath Ramanathan Mawatha, Colombo 15, Sri Lanka. 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.

# APPENDICES

## GRI CONTENT INDEX TOOL

### GENERAL STANDARD DISCLOSURES-G4

Number	Description	Section included	Page reference
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Chairman's Message	12
Organisational Profile			
G4-3	Name of the organisation	Ceylon Tobacco Company PLC	2
G4-4	Primary brands, products, and services	About Us	2
G4-5	The location of the organisation's headquarters	Colombo, Sri Lanka	Inner Front Cover
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Sri Lanka	2
G4-7	The nature of ownership and legal form	Corporate Information	Inner Back Cover
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Our Customers	66,70
G4-9	The scale of the organisation, including: <ul style="list-style-type: none"> <li>★ Total number of employees</li> <li>★ Total number of operations</li> <li>★ Net sales (for private sector organisations) or net revenues (for public sector organisations)</li> <li>★ Total capitalisation broken down in terms of debt and equity (for private sector organisations)</li> <li>★ Quantity of products or services provided</li> </ul>	About Us Financial Review	2 62
G4-10	<ol style="list-style-type: none"> <li>a. The total number of employees by employment contract and gender.</li> <li>b. The total number of permanent employees by employment type and gender.</li> <li>c. The total workforce by employees and supervised workers and by gender.</li> <li>d. The total workforce by region and gender.</li> <li>e. Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors.</li> <li>f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).</li> </ol>	Human Capital	83

## APPENDICES

### GRI CONTENT INDEX TOOL

Number	Description	Section included	Page reference
G4-11	The percentage of total employees covered by collective bargaining agreements.	Human Capital	83
G4-12	Describe the organisation's supply chain.	Our Customers	72
Our Business Partners			
G4-13	Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including: <ul style="list-style-type: none"> <li>★ Changes in the location of, or changes in, operations, including facility openings, closings, and expansions</li> <li>★ Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations)</li> <li>★ Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination</li> </ul>	None	
G4-14	Whether and how the precautionary approach or principle is addressed by the organisation.	Risk Management	50
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	Corporate Governance	27
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation is a member.	<ul style="list-style-type: none"> <li>★ Ceylon Chamber of Commerce</li> <li>★ Employers Federation</li> <li>★ The American Chamber of Commerce</li> <li>★ Council for Business with Britain</li> </ul>	
Identified Material Aspects and Boundaries			
G4-17	<p>a. List all entities included in the organisation's consolidated financial statements or equivalent documents.</p> <p>b. Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.</p>	Financial Statements	102 to 105
G4-18	<p>a. Explain the process for defining the report content and the Aspect Boundaries.</p> <p>b. Explain how the organisation has implemented the Reporting Principles for Defining Report Content.</p>	Determining Materiality	10

Number	Description	Section included	Page reference
G4-19	List all the material Aspects identified in the process for defining report content.	Determining Materiality	11
G4-20	For each material Aspect, the Aspect Boundary within the organisation	Determining Materiality	149
Determining Materiality			
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation	Determining Materiality	149
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	There are no restatements	
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	The scope and coverage of energy consumption was broadened during the year	
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation.	Stakeholder Engagement	8
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	8
G4-26	The organisation's approach to stakeholder engagement	Stakeholder Engagement	8
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	8
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	About this Report	Inner Front Cover
G4-29	Date of most recent previous report (if any).	Financial year ended 31 December 2015	
G4-30	Reporting cycle (such as annual, biennial)	Annual	
G4-31	The contact point for questions regarding the report or its contents.	About this Report	Inner Front Cover
G4-32	a. Report the 'in accordance' option the organisation has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	Core	

## APPENDICES

### GRI CONTENT INDEX TOOL

Number	Description	Section included	Page reference
G4-33	<p>a. Report the organisation's policy and current practice with regard to seeking external assurance for the report.</p> <p>b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided.</p> <p>c. Report the relationship between the organisation and the assurance providers.</p> <p>d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.</p>	The Company has not obtained external assurance on this Report.	
Governance			
G4-34	The governance structure of the organisation, including committees of the highest governing body.	Corporate Governance	28
Ethics and Integrity			
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate Governance	27
<b>ECONOMIC ASPECTS</b>			
Economic Performance			
G4-EC1	Direct economic value generated	Statement of Value Added	135
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Natural Capital	94
G4-EC3	Coverage of defined benefit plan obligations	Notes to the Financial Statements	111
<b>ENVIRONMENTAL ASPECTS</b>			
Materials			
G4-EN1	Materials used by weight or volume	Natural Capital	95
Energy			
G4-EN3	Energy consumption within the organisation	Natural Capital	95
G4-EN5	Energy intensity	Natural Capital	96
G4-EN6	Reduction of energy consumption	Natural Capital	96

Number	Description	Section included	Page reference
Water			
G4-EN8	Total water withdrawal by source	Natural Capital	96
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions	Natural Capital	98
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	Natural Capital	98
Effluents and Waste			
G4-EN23	Total weight of waste by type and disposal method	Natural Capital	97
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Natural Capital	95
Supplier Environmental Assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Our Business Partners	75
Environmental Grievance Mechanisms			
G4-EN33	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	No Environmental Grievances Filed	
<b>SOCIAL ASPECTS</b>			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Human Capital	83
Employment: Occupational health and safety			
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human Capital	82
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	83
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	80
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human Capital	81

## APPENDICES

### GRI CONTENT INDEX TOOL

Number	Description	Section included	Page reference
Employment: Labour practices grievance mechanism			
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Human Capital	83
Society: Local Communities			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Investing in Communities	86
Product Responsibility: Customer Health and Safety			
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Our Customers	68
Product and Service Labelling			
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements	Our Customers	68
Product Responsibility: Compliance			
G4-PR9	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Our Customers	68

## MATERIAL ASPECTS MAPPED TO GRI-G4 DISCLOSURES

CTC's material issues		Corresponding GRI-G4 material aspect	Aspect boundary
Performance	Economic Performance	Economic Performance, Market presence, Procurement practices	Internal and External
	Growth		Internal and External
	Productivity		Internal
Harm Reduction	Scientific Research	Customer health and safety	External
	Product Innovation	Customer health and safety	External
Sustainable Agriculture and farmer livelihoods	Supporting farmers		External
	Procurement practices, Supplier environmental assessment, Supplier assessment for labour		External
	Environmental impacts of tobacco growing		External
	Materials		Internal and External
	Agricultural policy		Internal and External
Corporate Behaviour	Marketing practices	Product and service labelling, Marketing communications, Compliance (PR)	Internal and External
	Youth smoking prevention		External
	Regulatory engagement		External
	Tobacco trafficking		External
	Health and safety	Health and Safety	External
	Minimising environmental footprint	Energy, Water, Biodiversity, Emissions, Effluents and Waste, Compliance (EN), Transport, Overall (EN)	External
Other Priorities	Non-Leaf supply chain	Procurement practices, Supplier environmental assessment, Supplier assessment for labour	External
	Retailer relationships		External
	Workplace human rights	Diversity and equal opportunity, Equal remuneration, Child labour	Internal
	Corporate Social Investment	Local Communities	External
	CSI Governance		Internal
	Employee engagement	Employment, Labour management relations, Labour grievance mechanism, Freedom of Association	Internal
	Training and development	Training and education	Internal
	Litigation		

## APPENDICES



### Environmental Policy

Ceylon Tobacco Company, is committed to meeting its consumer needs in an environmentally responsible and sustainable way in the direct operations it controls and the wider supply chain it influences. We believe as a responsible 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 pro-actively 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 life cycle, 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 and 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.

Felicio Ferraz

Managing Director & CEO  
Ceylon Tobacco Company PLC  
09 April 2013



## Social Responsibility in Tobacco Production (SRTP) Policy

Ceylon Tobacco Company hereby dedicates to assure focus on the following areas for the Social Responsibility in Tobacco Production

- ★ Conduct all business activities of the company according to the company EHS, Quality, Biodiversity and SRTP 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 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 and ensure that the industry does not employ minors in crop production.
- ★ 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.

Felicio Ferraz

Managing Director/CEO  
Ceylon Tobacco Company PLC  
18 September 2013

## APPENDICES



### 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.

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.

Felicio Ferraz

MD and Chief Executive Officer  
Ceylon Tobacco Company PLC  
18 September 2013



## Health & Safety Policy

Ceylon Tobacco Company, in its seed to smoke supply chain as manufacturer, marketer and distributor, is committed to safeguard the health, safety and welfare of all employees and non-Company personnel on our premises, in the successful conduct of our business. We are therefore committed to:

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

The Executive Committee has overall responsibility of Health and Safety and owns this policy. All staff regardless of their level in the 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

**Felicio Ferraz**

Managing Director & CEO  
Ceylon Tobacco Company PLC  
09 April 2013







# CORPORATE INFORMATION

## **NAME OF THE COMPANY**

Ceylon Tobacco Company PLC  
Reg. No. PQ 29

## **REGISTERED OFFICE**

178, Srimath Ramanathan Mawatha,  
Colombo 15

## **LEGAL FORM**

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

## **REGISTRARS**

SSP Corporate Services (Private) Limited

## **LEGAL ADVISORS**

Sudath Perera Associates  
Attorneys-at-Law

Messrs Julius & Creasy  
Attorneys-at-Law

Messrs FJ & G De Saram  
Attorneys-at-Law

## **AUDITOR**

Messrs PricewaterhouseCoopers

## **BANKERS**

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

## **HOLDING COMPANY**

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

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**CEYLON TOBACCO  
COMPANY**

A member of the British American Tobacco Group