Best in Class

Ceylon Tobacco Company PLC

Annual Report 2018

Contents

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

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

Best in Class

Ceylon Tobacco Company PLC (CTC) is a corporate in pursuit of unfaltering accomplishment. Pioneering innovative partnerships and breakthrough business practices have enabled CTC to transcend from creating mere competitive advantage to a company that is consistently ahead of the game.

This acclaim is the culmination of a century-long history, with CTC being a local benchmark of international standards. Creating and maintaining mutually-beneficial and economically-sustainable long-term relationships with shareholders, consumers, employees, valued business partners and partner communities is how CTC has ensured the strength and success of its operations. Business best practice and governance has been the cornerstone of CTC's operations over the years. As a responsible corporate, CTC remains one of highest contributors to the national exchequer and espouses a sustainability initiative that has been hailed across the corporate world as one of the most engaging and socially enriching in poverty alleviation.

To be best in class, we don't merely compete, we envision big and realise them better.

Ceylon Tobacco Company

A member of the British American Tobacco Group

About this Report

Our Approach to Reporting

As our primary publication to stakeholders, this Integrated Annual Report is intended to address the information requirements of our long-term investors. It is our fourth year of adopting Integrated Reporting (IR), which has allowed us to share a clear and balanced overview of how we deliver on our purpose. The Report includes a comprehensive discussion of key factors that shaped the Company's performance during the year, how we are directing strategy to respond to emerging opportunities and risks as well as our plans for the next year. In addition to the principles of Integrated Reporting Framework published by the International Integrated Reporting Council, this Report also conforms to the reporting requirements of the Companies Act No.7 of 2007, Listing Rules of the Colombo Stock Exchange and the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in 2017.

Materiality

In determining the material topics to be included in this Report we consider the issues that have the most potential to impact our ability to create value while influencing stakeholder decisions. In maintaining the consistency of the Report, we continue to structure the narrative based on the selected material topics, thus allowing readers to swiftly identify issues that are most critical to them.

Six Capitals

The IR Framework defines 6 forms of capitals, which all organisations rely on when creating value. Our value creation model on page 18 demonstrates how these capitals are integrated to our business and the navigation icons presented alongside serve as a visual reference to these capitals within the Report.

Feedback

We are committed to consistently improving the quality and readability of our Report and welcome your suggestions and comments. Please direct your feedback to;

Kawshika Abeykoon

Assistant Company Secretary
Ceylon Tobacco Company PLC
178, Srimath Ramanathan Mawatha
Colombo 15.

For shareholder inquires and complaints please contact CTC Shareholder Hotline: 0094 776384677

External Assurance

Financial reporting

Messrs. KPMG

Reporting Standards

Sri Lankan Financial Reporting Standards (SLFRS)

International Integrated Reporting Framework

Reading our Report

Strategic Report *(Pages 18-66)*
External dynamics, which shaped our performance and how we responded.

Material Topics *(Pages 23-63)*
All issues that were material to the Company and to the stakeholders during the year.

Risk Management *(Pages 64-66)*
Evaluation of the principal risk factors facing the Company.

Performance *(Pages 05-07)*
Overview of our financial, social and environmental performance during the year.

Corporate Governance *(Pages 74-83)*
High level overview of how we are governed and key governance related developments during the year.

Financial Information *(Pages 97-135)*
A comprehensive statement of our financial performance and significant activities during the year under review.

Financial Capital

Human Capital

Social and Relationship Capital

Manufactured Capital

Intellectual Capital

Natural Capital

Performance Highlights

		Units	2018	2017
FINANCIAL HIGHLIGHTS	Turnover	Rs. million	145,298	138,539
	Government Levies	Rs. million	112,368	107,387
	Revenue	Rs. million	32,931	31,151
	Profit Before Tax	Rs. million	27,477	24,571
	Profit After Tax	Rs. million	17,004	14,586
	Net assets	Rs. million	5,359	4,570
	Interim Dividends	Rs. million	14,049	12,363
	Proposed Final Dividends (subject to approval at AGM)	Rs. million	2,954	2,210
	Total Value Added	Rs. million	141,471	133,488
	Capital Investment	Rs. million	996	226
	Market Capitalisation	Rs. million	265,063	188,167
	Value Added Per Employee	Rs. million	524	493
	Permanent Employees	Number	270	271
	Dividend Pay-out Ratio	%	99.99	99.90
	Per Share			
	Market Value (Closing)	Rs.	1,415.00	1,004.50
	Net Assets	Rs.	28.61	24.40
	Earnings	Rs.	90.78	77.87
	Dividends (Interim and Proposed Final Dividend)	Rs.	90.77	77.80
SOCIAL HIGHLIGHTS	Total Employee Training Hours	Hours	4,664	4,103
	Investment in Training	Rs. million	51	55
	Female Participation in Management Roles	%	18	18
	Total Livelihoods Supported	Number	176,000+	172,000+
	Payment to Tobacco Farmers	Rs. million	925	1,060
	SADP Beneficiaries	Number	76,396	76,229
ENVIRONMENTAL HIGHLIGHTS	Energy Consumption	gj	39,186	39,765
	Energy Efficiency	gj/mce	7.10	7.30
	Water Consumption	cu.m	32,251	34,994
	Water Efficiency	cu.m/mce	5.90	6.40
	GHG Emissions	tCO2e	4,264	4,266
	Emission Intensity	tCO2e/mce	0.78	0.80
	Waste Recycled	%	92	93
	Investment in EHS Activities	Rs. million	61	13

tCO2e - Tonnes of Carbon Dioxide equivalent
gj - Giga joules
mce - Million cigarette equivalent
cu.m - Cubic metres

Our Performance

113 Years

of operations in Sri Lanka

Most valuable company listed on the Colombo Stock Exchange

as at 31 December 2018

Rs. 824 billion

contributed to the State over the past 10 years

6%

of the Government's total tax revenue

Rs. 265+ billion

TOTAL MARKET CAPITALISATION

Rs. 125 billion

CONTRIBUTED TO GOVERNMENT REVENUE VIA EXCISE, TAXES AND LEVIES

Rs. 11.4 billion

INFUSED INTO THE LOCAL ECONOMY ACROSS OUR VALUE CHAIN

44,000+

JOBS CREATED

20,000

persons engaged in tobacco farming using less than 0.01% of Sri Lanka's arable land

176,000+

livelihoods supported

76,396

beneficiaries of SADP

19,664

families supported through SADP

About the Company

Track Record of Value Creation

As one of Sri Lanka's most economically impactful organisations, Ceylon Tobacco Company PLC (CTC) has over the past century demonstrated its deep commitment to delivering stakeholder value. CTC is the most valuable listed company in Sri Lanka, accounting for 10% of the market capitalisation of the Colombo Stock Exchange by end-December 2018. CTC is the country's largest individual tax contributor, accounting for nearly 6% of the Government's total tax revenue in 2018. We also inject approximately Rs. 11.4 billion to the local economy through our value chain activities.

Value injected
Rs.11.4 billion

- Trade: **Rs.4.9 billion**
- Local Suppliers: **Rs.3.8 billion**
- Leaf Purchasing: **Rs.0.9 billion**
- Other: **Rs.1.8 billion**

Best-in-class Brands

We offer a world-class portfolio of cigarette brands, catering to a diverse array of adult consumer preferences. As a subsidiary of British American Tobacco (BAT) we benefit from our Parent's cutting-edge research capabilities, which allows us to effectively respond to evolving consumer needs.

Leader in Sustainability

As an organisation operating in a controversial industry, we are cognisant of the added responsibility placed on us to maintain the highest standards of corporate conduct. We take pride in the sustainable and responsible way our operations are run.

- Relationships with over 20,000 farmers and 60,000 retailers, empowering more than 176,000 livelihoods.
- Concerted efforts to reduce environmental footprint through clearly articulated targets.
- Over Rs. 61 million spent on maintaining highest Environmental, Health and Safety standards.

Employer of Choice

Considered as one of Sri Lanka's best employers, CTC offers a unique employee value proposition centred on development, diversity, global opportunities and a high-level of engagement. The spirit and tenacity of our 270-strong team is a key source of competitive edge and has enabled the Company to remain resilient even in the most challenging operating environment.

Females in Management Roles	Employee Turnover Rate
18%	7.9%

Operational Excellence

Operational excellence and efficiency are disciplines that run through everything we do. Optimising the manufacturing infrastructure and relentless focus on efficiencies through implementation of Integrated Work Systems (IWS) has enabled us to develop lean and agile processes.

Overall Equipment Efficiency (OEE)	Productivity Savings
66.5%	Rs.139 million

World Class Corporate Governance Practices

Our Parent is globally renowned for its strong governance practices and was ranked first out of all FTSE 100 companies for corporate governance practices. As a subsidiary of BAT, CTC's corporate governance framework has been developed broadly in line with the Group's policies, principles and standards and refined to comply with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant domestic laws and regulations.

Chairman's Review

"Foresight in effectively managing our distribution capabilities, relentless focus on cost management and a timely product portfolio strategy enabled the Company to record a growth despite these challenges, consistently delivering on its commitment to shareholders."

Dear Shareholder,

It is my pleasure to report that your Company achieved a 16.6% growth in profit after tax to deliver Rs. 17 billion in a year of numerous external challenges. An excise-led price hike in August 2018 coupled with moderating economic conditions and political instability impacted our volumes, particularly during the last two quarters of the year. Foresight in effectively managing our distribution capabilities, relentless focus on cost management and a timely product portfolio strategy enabled the Company to record a growth despite these challenges, consistently delivering on its commitment to shareholders.

Syed Javed Iqbal
Chairman

Chairman's Review

"As one of Sri Lanka's most economically impactful entities, your Company plays an important role in supporting the country's rural economy, empowering underprivileged families and contributing to national revenue."

The share price performed exceedingly well during the year and CTC emerged as the most valuable listed company on the Colombo Stock Exchange from June 2018, with a market capitalisation of Rs. 265 billion by end-December 2018. The share price increased by 40.9% to Rs. 1,415 during the year, despite an overall market decline of 5%. Earnings per share also increased by 16.6% to Rs. 90.78 during 2018. I am happy to report that the Board has approved a final dividend of Rs.15.77 per share, in addition to the four interim dividends paid, which takes the total dividend per share for 2018 to Rs. 90.77. Your Company is also amongst the highest dividend payers with an average dividend pay-out ratio of 99%.

Domestic and global headwinds affected Sri Lanka's macro-economic performance during the year in review. Economic growth moderated to 3.3% in the first 9 months of the year reflecting a subdued industrial sector, which was affected by a slowdown in construction, mining and quarrying. The agriculture sector rebounded to record a growth of 4.8% during the same period following favourable weather conditions while the services sector expanded by 4.4%. Despite an expansionary monetary policy, deposit and lending rates remained relatively high for most part of the year while the exchange rate depreciated sharply during the latter part of 2018 following capital outflows, escalating global commodity prices and the strengthening of the US dollar. These dynamics had an adverse impact on both investor and consumer sentiments during the year.

As one of Sri Lanka's most economically impactful entities, your Company plays an important role in supporting the country's rural economy, empowering underprivileged families and contributing to national revenue. CTC is the single largest individual tax contributor and tax payments of Rs. 125 billion in 2018 accounted for nearly 6% of the Government's total tax revenue. Value injection to the local economy amounted to Rs. 11.4 billion as we continued to support over 176,000 livelihoods engaged in farming, manufacturing and retailing. We also remain deeply committed to the Group's vision for long-term sustainability. Globally recognised as a sustainability champion, British American Tobacco (BAT) was the first tobacco company to be included in the DOW Jones Sustainability Index (DJSI) and has consistently maintained its position as the industry leader in economic, environmental and social performance based on the rankings of the DJSI. Locally, CTC's flagship Corporate Social Investment initiative, SADP has directly contributed towards poverty alleviation, empowering 76,396 beneficiaries in 19,664 economically underprivileged rural families through agricultural knowledge transfer, resource assistance and skill development.

As a responsible corporate citizen operating in a controversial yet legal industry, we remain deeply concerned about the continued growth of the illicit cigarette market in Sri Lanka. As has been proven in other markets, excessive price hikes will typically not reduce tobacco consumption, instead it will force smokers to look for cheaper alternatives, reducing the price paid per stick over time. Therefore, total smoking in Sri Lanka has been on the rise in the past years. As a result of the expansion of alternative and illegal tobacco trading, cheaper alternatives are depriving the Government from earning tax revenue and from achieving public health objectives. Given the health risks associated with our products, we understand that regulation is necessary although we urge the Government to pursue balanced and evidence-based regulation, which delivers on public health policy goals while preserving the rights of adult consumers.

The Company continued to strengthen its corporate governance practices during the year; following BAT's acquisition of Reynolds American, the Group is now expected to comply with the US Foreign and Corrupt Practices Act and other relevant US laws and regulations. We have extended our Anti-Bribery and Corruption Procedure to third parties engaged by CTC who are required to undergo a scoring process to assess for risk of bribery and corruption before being engaged. During the year we also strengthened the Data and Privacy Policy, Sanctions Compliance Procedure, Contract Policy and Supplier Code of Conduct. The Company also adopted the revised Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka in December 2017. I am happy report that during the year there were no departures from any internal BAT policies including the Company's Standards of Business Conduct (SOBC). You can find further information on the Company's compliance and governance mechanisms in the Leadership and Governance section of this Report.

Acknowledgements

I would like to take this opportunity to extend my gratitude to the outgoing Chairman, Mr. Susantha Ratnayake for his valuable counsel and guidance over the years. My appreciation also goes out to Mr. Dinesh Weerakkody and Ms. Emma Ridley who resigned from the Board during the year. I thank my colleagues on the Board and look forward to working with you in the coming years. I also offer my congratulations and gratitude to the dynamic team at CTC led by Mr. Michael Koest, Managing Director and CEO, who are without a doubt our key source of competitive edge. In conclusion, on behalf of the Board, I thank all stakeholders for the continued support rendered to the Company.

Syed Javed Iqbal
Chairman

14 February 2019

Managing Director and CEO's Review

"Critical and future-focussed management interventions to drive cost efficiencies, gain a deeper understanding of consumer needs and continued investment in our people enabled us to deliver consistent value to our stakeholders."

Dear Shareholder,

The Company's operating landscape presented numerous challenges during the year in review. Consumer affordability, driven by successive Government-led excise hikes since 2016, has been a consistent pressure point for our volumes. Regulatory initiatives, while not fully fact-based, continue to add complexity and cost to our business. Despite these unprecedented conditions, critical and future-focussed management interventions to drive cost efficiencies, gain a deeper understanding of consumer needs and continued investment in our people enabled us to deliver consistent value to our stakeholders.

Michael Koest
Managing Director and CEO

Managing Director and CEO's Review

"The price of legal cigarettes in Sri Lanka is now the second most expensive in the world, based on purchasing power parity, pushing price-pressured consumers towards cheaper alternatives that are readily available in the market."

CTC continues to be one of Sri Lanka's most economically impactful organisations and we are committed to contribute to the country's development – through the injection of much-needed tax revenue, the infusion of value to the local economy and the development of world-class business leaders. In 2018, we maintained our position as the country's single largest individual tax contributor. Historically, annual growth in value creation to the Government from the legal tobacco industry has been around 20%, therefore the potential target revenue for the Government stood at around Rs. 162 billion in 2018. Unfortunately, the 43% price increase in legal cigarettes in the fourth quarter of 2016 has caused a stagnant government revenue thereafter, thus a lost opportunity to earn an additional revenue of Rs. 37 billion during the year in review.

As highlighted in our previous annual reports, the prevalence of under regulated products such as beedi and smuggled illicit cigarettes has grown at an alarming rate in recent years. The price of legal cigarettes in Sri Lanka is now the second most expensive in the world, based on purchasing power parity, pushing price-pressured consumers towards cheaper alternatives that are readily available in the market. The total market size – measured in number of sticks smoked – has grown at over 3% year-on-year despite the Government's efforts to curb tobacco consumption, a clear indication that the country's tobacco control strategy is failing.

Unfortunately, tobacco regulation and taxation in Sri Lanka largely targets the legal cigarette industry, creating an unfair advantage for cheaper, alternative products. Beedi volumes have doubled over the last decade, accounting for 57% of total smoking market in the country, while only providing 3% of the total tobacco tax revenue to the Government. Consumers can purchase 11 beedis for the price of 1 legal cigarette, causing a reduction in average prices paid by consumers and the growth of the total smoking market. Shockingly, beedi continues to evade the notice of tobacco control groups and policy makers alike, remaining under-taxed – only 20% tax incidence and no excise being levied.

In the absence of a cohesive national strategy to restrict black market activities, cigarette smuggling grew by 11% in 2018 and more than 510 million sticks of illicit cigarettes were smoked by Sri Lankan consumers during the year. Smuggled cigarettes now account for 6% of the total tobacco market and the State incurred a loss of around Rs. 21 billion in tax revenue as a result. Unfortunately, the profits made by those involved in the illicit trafficking of cigarettes far outweigh the risks associated, which spurs such illegal activities.

As moderating economic conditions continue to impinge on consumer spending, the price disparity between legal cigarettes and alternatives such as beedi and illicit cigarettes will continue to widen, providing further impetus for the growth of the latter. This not only harms your Company, it equally defeats the Government's public health objectives, deprives the country of tax revenue and strengthens organised crime. We continue to urge relevant policy makers to implement a coherent tobacco policy, which encompasses all tobacco products and levels the playing field. It is the only way the Government can strike a balance between deriving sustainable revenue from the sector, preventing consumers from smoking substandard products and controlling health risks associated with tobacco consumption.

Against this backdrop, in 2018 we made significant investments in our brands and our strategic focus was placed on optimising our portfolio through refining our market segmentation strategy. Despite challenges stemming from the external environment, political instability in the last quarter of 2018 and continued pressure on our retailers in the form of unlawful enforcements, we managed to establish a stronger portfolio to deliver value to our consumers. We saw John Player Navy Cut (JPNC) achieve volume growth, strengthening our position in the value-for-money segment as we focused on enhancing availability and distribution efficiencies. For us growth is not about encouraging more people to smoke but understanding and meeting the evolving preferences of adult consumers and I am confident that the work carried out during the year will continue to benefit the business over the next 10 years.

Another critical factor in delivering strong results, was the execution of our distribution strategy, which enhanced the availability of our products, developed stronger distributor standards, and improved the efficiency of sales routes. Our distributors and retailers are a vital element of our supply chain and we continue to place strategic emphasis on nurturing win-win relationships with these valued business partners. We remain committed to developing and contributing to the sustainability of our business partners through unique training and development programmes. On the other hand, we note with concern that our retailers continue to face mounting pressure from the unlawful enforcement of non-existent or misinterpreted regulations by certain Government authorities. We request relevant authorities to cease such unreasonable and unlawful activities, which hamper the commercial interests of a legally-established industry.

We also remained steadfast in our commitment to creating sustainable livelihoods to over 176,000 supply chain partners and 20,000 persons engaged in tobacco cultivation. In 2018, CTC sourced the entirety of its tobacco leaf requirement from local farmers, injecting around Rs. 0.9 billion to the rural economy and directly contributing to socio-economic empowerment in underprivileged areas. The Company offers a holistic value proposition to tobacco leaf farmers, including the purchase of their full crop at a pre-agreed price, provision of all resources, propagation of sustainable agricultural practices and the development of infrastructure, all of which add to the creation of sustainable farmer livelihoods. In recent years however, the sustainability of tobacco farmers' income has come under threat due to the enforcement of non-existent laws and regulations as well as the exertion of undue pressure on farmers to abandon tobacco cultivation.

With regard to manufacturing capabilities, the Company progressed further on its Integrated Work Systems (IWS) journey, with the long-term objective of transforming its manufacturing processes to maximise equipment efficiency. CTC is the first Sri Lankan company to adopt this internationally-renowned framework and hopes to successfully obtain the Phase 1 certification in the coming years. During the year the Company also focused on gearing for a major capacity expansion and technology upgrade, which is scheduled for 2019, through strengthening employee capabilities and improving the factory layout and safety mechanisms. Manufacturing KPIs continued to improve with the overall equipment efficiency ratio, increasing the meantime between failures and delivering 'quality to specification' among the best in Asia.

In spite of the many challenges faced during the year, the Company delivered yet another year of commendable results supported by the relentless focus on a relevant and holistic strategy. It is my pleasure to report that CTC's net revenue increased by 5.7% in 2018 to record Rs. 32.9 billion, while operating expenses declined by 17.8% given the Company's ongoing focus on generating efficiencies across its value chain. Resultantly, profit to our shareholders for the year grew by 16.6% to reach Rs. 17 billion. I am also extremely proud to report that CTC was nominated for the prestigious Golden Leaf Award for 2018 (highest recognition within the BAT Group) for its past three-year journey and the outstanding results delivered year-on-year.

I firmly believe that it is the spirit and tenacity of the 'CTC Tribe' that has enabled the Company to remain resilient in the face of tough and unfair operating conditions and deliver yet another fantastic year. We made substantial investments in talent development and succession planning during the year, with 81% of our workforce undergoing training. We offered a wide portfolio of best-in-class functional and leadership development programmes to strengthen capabilities and accelerate the development of our next generation of leaders. In 2018, 7 employees were also seconded to BAT's regional and global markets. Regardless of the many efforts of anti-tobacco groups to stigmatise our industry, the Company has been successful in recruiting the right talent at the right time, reflecting the strength of its employer brand. The team at CTC is agile, professional and high-performing, and their skills and fortitude have enabled us to create an organisation that is robust, fit-to-fight and consistently delivers on its strategic ambitions.

As an organisation operating in a controversial industry, I would like to reiterate that we support regulation that is balanced, evidence-based and delivers on intended public health objectives. On the other hand, ad hoc and unreasonable regulations will have unwelcomed and unintended consequences, which could threaten the viability of our business while impacting livelihood across our value chain and government revenue. The Group's experience and expertise in over 180 countries means that we have much to offer governments and regulators when it comes to developing policies around tobacco and we welcome a debate around a more coherent framework for excise calculation to ensure a sustainable increase in tobacco related revenue to the Government.

As the year draws to a close, I would like to extend my gratitude to the outgoing Chairman for his guidance and counsel throughout his tenure. My appreciation also goes out to the past and present Board of Directors and Executive Committee members for their support and confidence placed in me. The 'CTC Tribe' inspires me every day and I would like to take this opportunity to thank them for their passion and unwavering commitment, which made the excellent results of 2018 possible. I look forward to working with you all in the coming year.

Michael Koest
Managing Director and CEO

14 February 2019

Value Creation Model

CAPITAL INPUTS

Financial Capital

Funds used to drive our strategic ambitions and support operations (page 101)

Equity: **Rs. 5.36 billion**

Total debt: **Zero**

Manufactured Capital

Manufacturing facilities and other physical infrastructure used in manufacturing activities (page 101)

Property, plant and equipment: **Rs. 3.08 billion**

Human Capital

Skills, attitudes and experience of our employees (page 30)

Permanent employees: **270**

Social And Relationship Capital

The stakeholder relationships we have nurtured and rely on to create sustainable value (page 48)

Our brands (page 24)

Intellectual Capital

Tacit knowledge, standards and procedures

Natural Capital

Natural resources that are used in our value creation (page 54)

Energy consumption: **39,186 gj**

Water consumption: **32,251 cu.m**

APPROACH TO VALUE CREATION

Source

We purchase over 2,436 MT of tobacco annually and provide guidance to over 20,000 farmers to ensure consistency and quality of supply.

(page 42)

Produce

Manufacture a world-class portfolio of products under stringent quality standards.

(page 40)

Market

We offer adult consumers a range of high quality products covering all segments, from value-for-money to premium.

(page 24)

Distribute

We distribute our products effectively and efficiently through 14 exclusive distributors.

(page 28)

Corporate Governance (page 74) and Risk Management Practices (page 64)

OUTPUTS AND OUTCOMES

Cigarettes

3.15 billion Sticks

Shareholders

Net profit: **Rs. 17 billion**

EPS: **Rs. 90.78**

Dividends: **Rs. 16.3 billion**

Share price increase: **40.9%**

Employees

Remuneration: **Rs. 1.3 billion**

Training investment: **Rs. 51 million**

Promotions: **23**

Business partners

Total payments to tobacco farmers: **Rs. 0.9 billion**

Payments to other business partners and suppliers: **Rs. 8.7 billion**

Government

Tax payments: **Rs. 125 billion**

Community

Investment in SADP: **Rs. 41.8 million**

Beneficiaries: **76,396**

Natural impacts

Solid waste: **504.6 MT**

Carbon footprint: **4,264 tCO2e**

tCO2e - Tonnes of Carbon Dioxide equivalent
gj - Giga joules
mce - Million cigarette equivalent
cu.m - Cubic metres
MT - Metric tonnes

Operating Environment

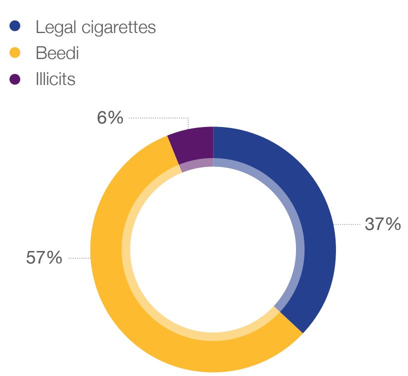
Market Overview

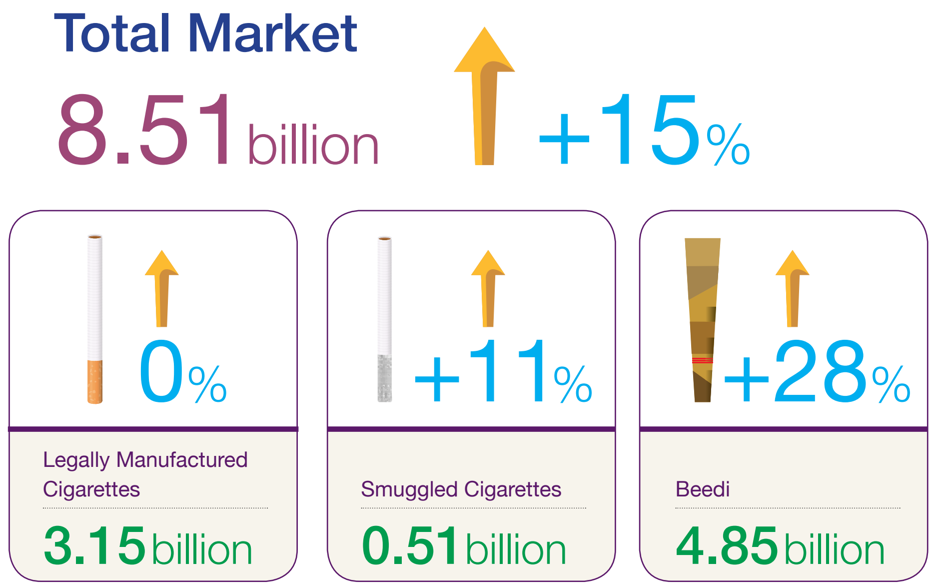
The BAT Group estimates that globally, overall industry volumes have recorded a sustained decline in recent years, falling by 3.5% in 2017. This trend is expected to continue as attitudes change, the illicit market expands, and regulations become more stringent. In Sri Lanka, a booming illicit market following the 43% price hike in legal cigarettes in 2016 continues to have a significant impact on the legal industry and is expected to be a serious issue into the foreseeable future.

Sri Lanka's Illicit Market

Sri Lanka's tobacco industry consists of CTC – the only legal manufacturer of cigarettes, the under-regulated beedi market and illicit, smuggled and counterfeit cigarettes. CTC's market share has declined consistently over the past decade or so as tax and other tobacco regulations have primarily targeted legally manufactured cigarettes. This has provided impetus for the growth of the illicit market, which saw dramatic expansion following the 43% price hike in legally manufactured cigarettes in 2016. Illicit cigarettes grew by a 11% in 2018. Given the price disparity between legal and illegal products, consumers have increasingly turned to smuggled cigarettes thereby defeating the Government's public health objectives and causing significant losses in tobacco revenue to the State. It is noteworthy that on average, law enforcement authorities detect only less than 10% sticks smuggled into the country and based on available data it can be estimated that over 510 million sticks of illicit cigarettes were consumed in 2018.

Sri Lankan Tobacco Market 2018

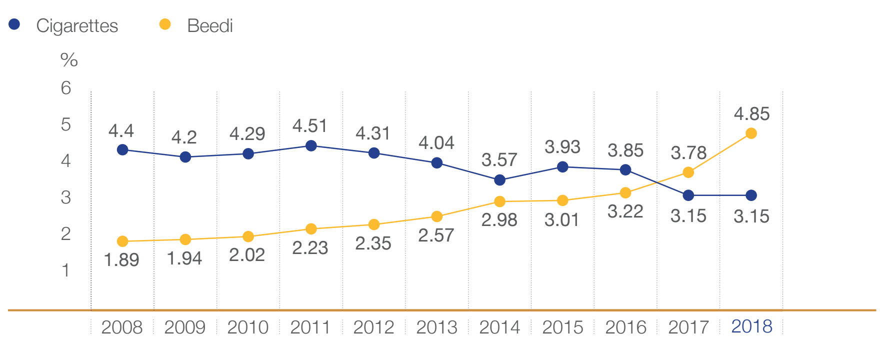




A Growing Beedi Market

Sri Lanka's beedi market has continued to expand at a steady pace due to steep excise-led price increases of legally manufactured cigarettes. As a flourishing cottage industry, the beedi market is under regulated and under taxed with just imported tendu leaves being taxed. Despite accounting for nearly 57% of the total combustible market, beedi contributes just 3% to the Government's tobacco tax revenue with the tax burden unfairly falling on cigarettes. In addition to the significant loss to government revenue, the absence of a scientific mechanism to ensure quality standards in beedi production means that the likelihood of inferior products being sold to consumers is high.

Combustible Tobacco Market



Next Generation Products

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

Our Vision and Strategy

The BAT Group's long-term strategic agenda remains as relevant as it did when it was first rolled out in 2012. The strategy articulates the blueprint for delivering growth and sustainable stakeholder value. While the key pillars of the agenda remain unchanged, emerging dynamics in the operating landscape compel us to continually revisit and rethink the action plans in place for achieving our strategic priorities.

Vision

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

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

Mission

Delivering our commitments to society, while championing informed consumer choice

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

Strategic focus areas

Growth
New products, brands and innovation.

Productivity
Effectively deploy resources to increase profits.

Winning Organisation
Great people, great team and great place to work.

Sustainability
Sustainable business that meets stakeholder expectations.

Guiding Principles

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

Enterprising Spirit

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

Open Minded

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

Freedom Through Responsibility

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

Strength From Diversity

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

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

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

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

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

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

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

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

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

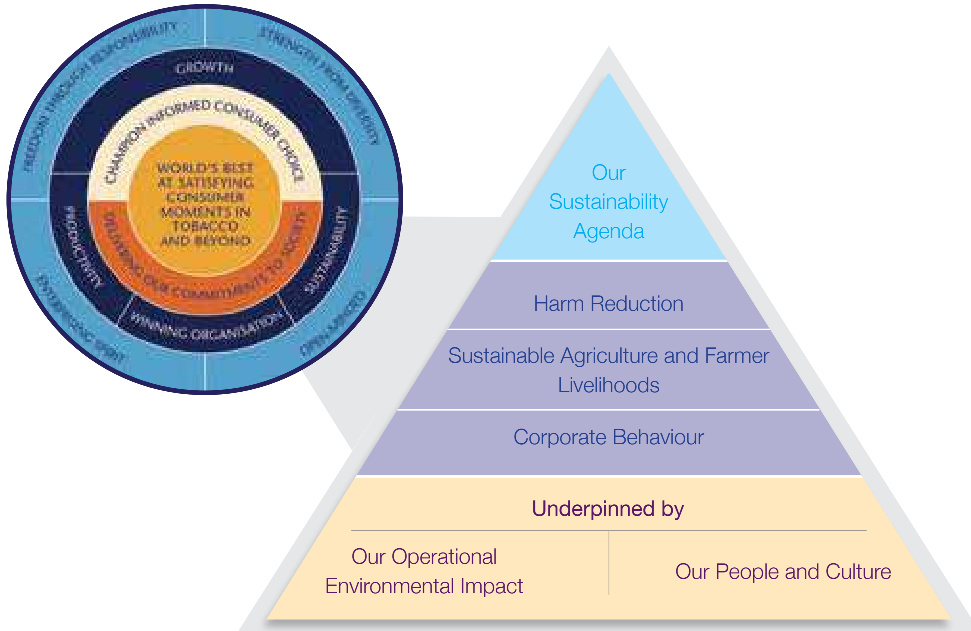
We will lead the **next generation nicotine products category** globally.

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

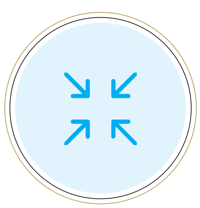
We **shape a new deal with consumers and society**, being completely transparent and seeking to offer safer products.

Sustainability at CTC

The Company's sustainability strategy is aligned to the long-term sustainability agenda of BAT Group, which clearly articulates three pillars of focus, namely harm reduction, sustainable agriculture and farmer livelihoods and corporate behaviour. At CTC, these objectives, particularly the latter 2, are embedded into how we work and our sustainable approach to sourcing, manufacturing and distribution has allowed us to create value for our diverse stakeholders.



Harm reduction



We are committed to working to reduce the public health impact of smoking, through offering adult consumers a range of potentially reduced-risk products.

Sustainable agriculture and farmer livelihood

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf.

Corporate behaviour

We are committed to operating to the highest standards of corporate conduct and transparency.

CTC and the Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) were signed into effect by global leaders in September 2016 and represent 17 goals and specific targets to be achieved over the next 15 years, with the ultimate objectives of ending poverty, ensuring prosperity and protecting the planet. Sri Lanka too is committed to the SDGs, and as an organisation CTC's business and sustainability strategy contributes towards the achievement of these goals. In demonstrating how the SDGs relate to our material topics, this year we have highlighted the Company's SDG contribution in the relevant chapters discussing material topics, from page 23 to 63 of this Report.

Material Matters

In maintaining the consistency of our Annual Report, the narrative from page 23 to 63 is structured based on the Company's 11 material topics. This approach has enabled us to present a concise and focused discussion on factors that are most relevant to the organisation and to its stakeholders. Each chapter provides an overview of how each material topic is managed, developments during the year, challenges, performance indicators and outlook. The material topics are selected through a systematic materiality analysis process, which takes into consideration emerging risks and opportunities in the operating landscape, stakeholder concerns, strategic aspirations, organisational competencies and other factors, which may affect our ability to create value. This process is graphically illustrated alongside. The material topics presented below remain unchanged over the previous year and are listed in reference to the Company's four strategic priorities.

Identify matters that can impact our value creation process with reference to inputs required for the process and the impact to stakeholders

Evaluate their significance to the Company and the impacted stakeholders

Prioritise matters based on their relative importance

Determine matters to be disclosed in the Integrated Report

Strategic priority	Material topic	Relevant capital	
Growth	Our Brands	Intellectual Capital	Social and Relationship Capital
	Distribution and Retail	Financial Capital	Social and Relationship Capital
Winning Organisation	Managing People	Human Capital	
Productivity	Safe Working Environment	Human Capital	
	Manufacturing and Operational Efficiencies	Manufactured Capital	Financial Capital
	Leaf and Supply Chain Operations	Financial Capital Natural Capital	Social and Relationship Capital
Sustainability	Product Responsibility	Social and Relationship Capital	
	Corporate Behaviour	Social and Relationship Capital	
	Tackling the Illicit Trade and Beedi Market	Financial Capital	Social and Relationship Capital
	Environmental Impacts	Natural Capital	
	Community Engagement	Social and Relationship Capital	

Our Brands

Our premium offering, Dunhill is synonymous with innovation, quality and novel experience.

CTC's leading brand, JPGL caters to the aspirational premium segment of the market and has been present in Sri Lanka for over 65 years.

Our value-for-money brands.

Capstan caters to the low-end segment and is the only non-filtered cigarette in the market.

Highlights of 2018

Maintained a volume of **3.15 billion** sticks.

Launched **JPGL capsule**, a limited-edition product.

For the first time in **10** years a segmentation study was conducted, which would help the business to better understand market needs and shape the way the Company conducts its business in the future.

Relevant Capital

Intellectual Capital

Social and Relationship Capital

"Our multi-category portfolio of brands allows us to effectively segment our market and cater to a diverse array of consumer preferences. This has enabled us to continuously deliver value to our consumers."

In 2018 we also sought to deepen our understanding of consumer behaviour by conducting a segmentation study based on psychographics and behavioural analysis. These insights will be a key input in determining our product launches for 2019 and beyond and will allow us to respond more effectively to specific consumer needs.

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

Way Forward

We will continue to review and refine our portfolio strategy to cater to evolving consumer preferences and market dynamics. As the economy posts slow recovery following political instability of 2018, the anticipated growth in the tourism sector and gradual strengthening of macro-economic fundamentals are expected to augur well for the Company over the medium term. Key downside risks include the unlawful enforcement of regulations by certain Government authorities and the continued expansion of the illicit market.

Strategy and Management Approach

In 2018 we refined and maintained focus on the market segmentation strategy adopted in 2017. Given that demand conditions are yet to recover following the sharp price hike in 2016, we continued to focus on strengthening our offering to the price sensitive segment of the aspirational premium market while adding value to top-end consumers. John Player Navy Cut (JPNC), which was launched in 2017 achieved commendable volume growth fortifying our position in the value-for-money segment and adding value to price pressured consumers. In 2018, we also launched a John Player Gold Leaf (JPGL) limited edition product with a capsule variation, the initial response for which was extremely encouraging.

Despite numerous external challenges including an excise-led price hike, political instability in the last quarter of 2018 and continued pressure on our retailers, the Company successfully maintained its sales volume, attesting to the soundness of its marketing strategy. Dunhill recorded a double digit growth while JPGL volumes were maintained. Value-for-money brands performed relatively well as we focused on increasing availability and distribution efficiencies.

Our Products

DUNHILL Blue

BENSON & HEDGES (B&H)

DUNHILL Switch

DUNHILL Grey

JOHN PLAYER GOLD LEAF (JPGL) 20's Pack

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

JOHN PLAYER NAVY CUT
(JPNC) 20's Pack

BRISTOL

JOHN PLAYER GOLD LEAF
(JPGL) 12's Pack

JOHN PLAYER NAVY CUT
(JPNC) 5's Pack

CAPSTAN

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

Distribution and Retail

14
Exclusive distributors

60,000
Retailers

Highlights of 2018

Enhanced product availability through strengthening portfolio-wide distribution capabilities.

Retail Excellence Series supporting over **2,000** retailers across the island.

POSITIVE

Ongoing focus on the POSITIVE initiative.

Relevant Capital

Financial Capital

Social and Relationship Capital

Contribution to SDG

4 QUALITY EDUCATION

Capacity building to over **2,000** retailers through the Retail Excellence Series.

5 GENDER EQUALITY

Guidance and technical support to female retailers.

8 DECENT WORK AND ECONOMIC GROWTH

Supporting the business growth and sustainability of our retail and distributor partners.

"We strive to consistently enhance the efficiency and reliability of our distribution network to ensure that we can offer the products adult consumers wish to buy, when and where they want them."

Total Distributors 14

09	03	02
Relationship of 50 years or more	Relationship between 25-50 years	Relationship of less than 25 years

Strategy and Management Approach

Our strategy for the year centred on enhancing the availability of products through improving portfolio-wide distribution capabilities. This was actioned through focus on several areas; firstly, the Company sought to strengthen its distribution standards by aligning to global guidelines and restructuring/revamping routes to ensure optimal efficiency. Emphasis was also placed on improving the call effectiveness of sales representatives across the market, driving increased product availability. We also sought to optimise our route to market by rationalising our distributor network and supporting the growth of relatively larger distributors.

A key achievement during the year was the successful completion of the Retail Excellence Series; a unique programme aimed at empowering over 2,000 retailers through providing guidance on consumer behaviour, accounting systems and technology adoption. Special attention was placed on strengthening female retailers by providing guidance on equal rights, leadership and effective management of their enterprises. These efforts attest to our commitment to nurture and develop business partners to drive sustainable growth in their businesses.

In addition to the specific initiatives listed above, we continued to maintain a high level of engagement with our distributors and retailers facilitated by multiple platforms including the Distributor Staff Awards and ongoing communication on product and brand awareness programmes.

Way Forward

Key priorities for 2019 include further strengthening our distributors and the trade marketing team through capacity and capability development and increased focus on indirect distribution.

Managing People

270
Permanent employees

13%
Female representation

7.9%
Employee turnover

Highlights of 2018

Emphasis on talent development and succession planning with employees receiving **4,664** hours of training with a coverage of **81%.**

57% of employees received recognitions.

23 promotions during the year.

07 seconded for foreign exposure.

Total remuneration of **Rs. 1.3 billion.**

Relevant Capital

Human Capital

Contribution to SDG

Unique employee value proposition offered to CTC's team of talented, dynamic individuals.

13% female representation.

Total investment in training amounting to **Rs. 51 million.**

"We aspire to create a Winning Organisation through attracting and retaining the best employees, developing talent from within the organisation and investing in and supporting high-performing leaders. We are proud to employ the industry's top talent, whose spirit and tenacity has enabled CTC to remain resilient in tough operating conditions."

Strategy and Management Approach

Best-in-class talent management practices and a unique employee value proposition makes us one of Sri Lanka's most preferred employers. HR aspects are governed by comprehensive policy frameworks, which are aligned to that of BAT and revised to ensure compliance to local regulations and market practices. HR policies are reviewed annually and revised, if required, to ensure relevance and adaptability to emerging risks. During the year, the Company also conducted a policy roadshow to all employees to raise awareness and reinforce key aspects of the policy frameworks.

Our Approach

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

Priorities in 2018

Talent Development

Nurturing strong talent pipelines through developing talent from within is part of our ethos and we continue to invest in updating our capability frameworks and learning portfolio. In-depth talent review meetings are conducted twice a year and allow us to assess the managerial talent capabilities and formulate a talent roadmap. A wide portfolio of functional and leadership programmes enables the strengthening of capabilities and accelerate the development of our next generation of leaders. Our approach towards learning and development embodies a 70:20:10 philosophy comprising of 70% on the job training, 20% learning from others including coaching and mentoring and 10% formal training.

Opportunities for cross-border exposure is a key element of our value proposition and during the year, 7 employees were seconded to BAT's regional and global markets. We also provide opportunities for short-term assignments in other markets, the frequency and number of which has been on an increasing trend, attesting to the quality of our human capital.

Training

In 2018 we invested Rs. 51 million in employee development, providing over 4,664 hours of training.

Managing People

The following programmes are conducted on an ongoing basis;

Global Graduate Programme

BAT's Global Graduate Programme is an accelerated 1 year initiative, which gives our emerging talent an international exposure and commercial acumen, supported by collaborative, world-class development. Since its introduction, 2 Sri Lankans have obtained the opportunity to be part of this unique programme.

Internship Opportunities

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

Timely Recruitment

In 2018, we continued to strengthen our internal capabilities to engage and recruit people who will drive our strategic aspirations. Emphasis was placed on reducing cost and enhancing the efficiency of the recruitment process. During the year we added 60 members to our team, comprising primarily of entry level employees in trade marketing and leaf.

Engagement

Numerous engagement platforms aim to nurture an open culture, facilitating communication across all levels of the organisation. In 2018 we sought to enhance engagement across the organisational hierarchy by providing an opportunity for junior employees to have one-on-one sessions with Executive Committee (EXCO) members focusing on soft skills and personal growth. Ongoing engagement mechanisms include quarterly "Tribal Talks", meetings with union representatives, satisfaction surveys as well as a year-round calendar of sports and events.

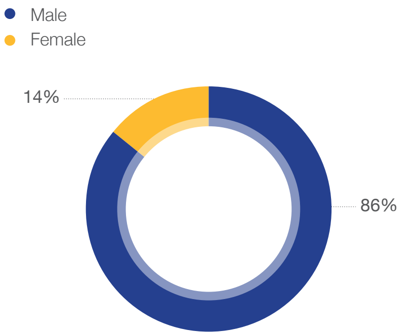
Employee Wellness

A Wellness Week was held for all employees with the participation of healthcare professionals who provided guidance on nutrition, exercise and maintaining a healthy lifestyle. The Company also invested in upgrading its gym, providing an opportunity for employees to engage in activities such as crossfit.

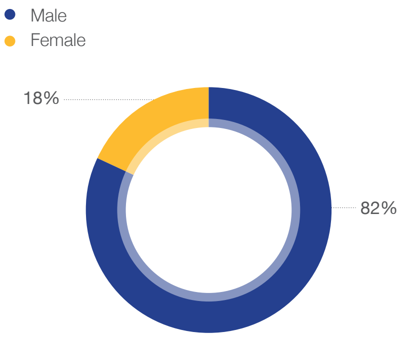
Strength from Diversity

We believe diversity makes good commercial sense and providing women and other diverse groups opportunities to engage and develop is a global priority. Since 2013, BAT's 'Women in Leadership' programme has supported and accelerated the career progression of female talent within the Group. During the year we conducted several leadership sessions for employees, including one with the Finance Director, covering 100% of the female cadre. At CTC we have continued to widen female representation through ensuring balanced access at entry level, providing opportunities for flexible working, increasing maternity benefits and facilitating platforms for engagement. We are also pleased to note that the Marketing function appointed the first female field-based Area Manager in 2018.

Executive Committee Composition 2018



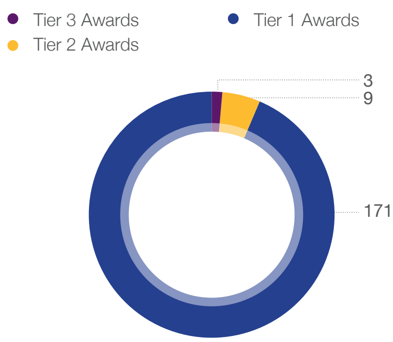
Management Cardre Composition 2018



Rewards and Recognition

Reward is a key pillar in ensuring that we have the right people to drive the business forward. Base pay is determined relative to skills and experience while performance bonuses and recognition schemes ensure that high performers are recognised and rewarded. In 2018, total remuneration to employees increased by 5% to Rs.1.3 billion. Our talent proposition centres on developing and stretching talent from within and this year over 82% of our appointments were drawn from people already within the business. During the year we also continuously recognised high performance through our recognition scheme.

Employee Rewards



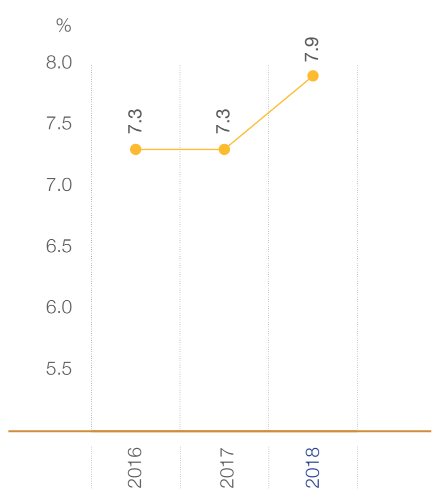
Industrial Relations

We understand our employees' right for freedom of association and collective bargaining. Approximately 29% of our employees are represented by a union and they are covered by a collective agreement, which forms the foundation for harmonious industrial relations. We engage proactively with union representatives on a regular basis and have continued to maintain an open and congruous relationship with them for over two decades. During the year, we reaffirmed a record of zero lost workdays stemming from industrial action.

Retention

Despite industry pressure impacting employee morale, the Company has been able to maintain attrition at manageable levels with no losses in high potential employees during the year. The overall turnover rate for the year amounted to 7.9%, which is below industry average for the FMCG sector.

Employee Turnover



Way Forward

CTC's management team remains committed to drive a winning people's agenda and we recognise that the expectation of stretched delivery can only be achieved through the continuous enhancement of our employee value proposition and strengthening our winning people strategies. With external pressures on our industry likely to increase over the next few years, we understand the importance of clearly communicating the business realities to our teams and working to maintain their confidence and energy levels. We will therefore continue to enhance our talent brand in 2019 while upskilling and strengthening our talent pipeline.

Managing People

Union Committee - Colombo

Union Committee - Kandy





Safe Working Environment

100%
Increase in nearmiss reporting vs. 2017

52
PULSAR trained observers

84%
PULSAR observation rate

Highlights of 2018

Fifteenth consecutive injury-free year at the Colombo factory.

Extended the health and safety programme to outsourced contractual workers.

Strengthened **EHS practices** in factories.

Relevant Capital

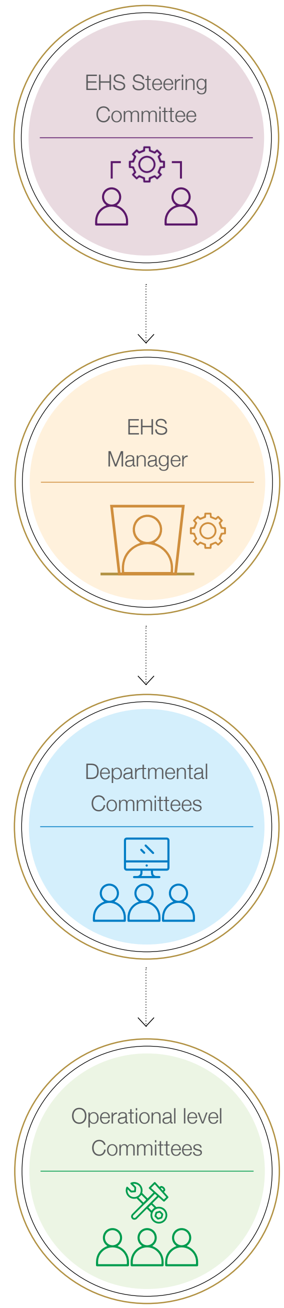
Human Capital

Contribution to SDG

8 DECENT WORK AND ECONOMIC GROWTH

Comprehensive EHS Framework in place to ensure a safe work environment.

"As a manufacturing organisation, ensuring the safety and well-being of our employees is crucial and we are committed to maintaining a conducive, hazard-free work environment."



Strategy and Management Approach

We are committed to providing a safe work environment for all our employees and all health and safety aspects are governed by applicable local laws and regulations as well as well-defined procedures in line with the BAT Group's integrated EHS (Environment, Health and Safety) guidelines. Our approach is based on risk assessment and management, training and awareness and specific initiatives for high-risk areas of the business. The governance structure includes a cross-functional EHS Steering Committee, which meets quarterly to monitor health and safety (H&S) performance parameters and identify areas for continuous improvement, in addition to departmental Health and Safety Committees. All employees undergo H&S training on a regular basis and relevant topics are covered in collective agreements with trade unions.

In 2018, we ensured that all our outsourced/contractual suppliers were also aligned to BAT's H&S standards. Accordingly, employees of all such suppliers are now required to undertake a medical test and are given work-specific H&S training relevant to their responsibilities. During the year, 296 employees of such outsourced/contractual suppliers underwent such training.

We also strengthened several key EHS aspects in our factories including the installation of new life line systems and standardising the protective equipment. Meanwhile, the driver safety and security programme continue to address the risks associated with Trade Marketing and Distribution. All drivers undergo mandatory defensive driving (theoretical and practical) training sessions and tests as well as visibility tests, while all vehicles are required to meet strict safety specifications mandated by the Group policy.

Safe Working Environment

The following H&S initiatives were conducted during the year;

NEARMISS

All employees are encouraged to report potential safety risks and hazards through a mobile application. Follow-up on all reports are actioned by the EHS Manager. Operational level employees have also been given quarterly targets for incident reporting with the objective of driving a culture of safety awareness across the Organisation. In extending our H&S practices across our supply chain, we also introduced nearmiss reporting to our third party logistics partner. In 2018 we saw a 100% increase in nearmiss reporting against 2017.

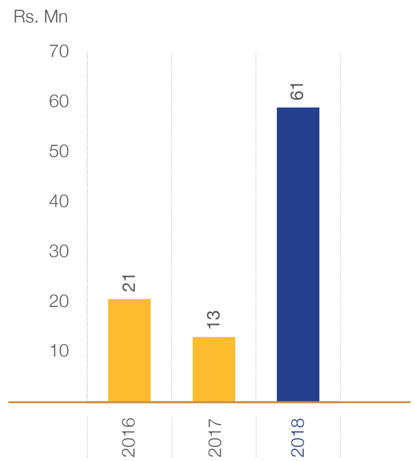
PULSAR

Involves the mutual observation of employees' behaviour and the reinforcement of positive aspects, which are expected to condition employees to continuously adopt these behaviours. The programme comprises 52 trained observers and the observation rate increased to 84% from 60% the year before. This programme has been extended to all CTC's factories and Colombo-based warehouses.

Employee Wellness

Employee wellness was a key area of focus during the year and a wellness week was held for all staff with the participation of healthcare professionals who provided guidance on nutrition, exercise and maintaining a healthy lifestyle. During the year the Company gym was also upgraded with new fitness programmes such as crossfit. The Company also operates a dedicated Health and Wellness Centre, which offers tailor-made guidance on nutrition, healthy living and exercise plans. We continued to maintain a commendable H&S record and the Colombo Factory recorded its 15th consecutive injury-free year in 2018.

EHS Expenditure



Way Forward

We will continue to drive our H&S agenda through employee engagement, risk assessment and safety initiatives. We also hope to extend PULSAR and NEARMISS to our supplier base, with the objective of propagating strong H&S practices among our business partners and ultimately ensuring that the entire tobacco supply chain is hazard-free. CTC will further strengthen its H&S standards through internal compliance assessments and commit to going beyond the policy requirements by targeting 100% compliance with BAT's Best Practice Guidelines.

Manufacturing and Operational Efficiencies

4.0 Bn
Manufacturing capacity

9.5%
YOY improvement in factory efficiency

68%
Increase in Mean-time Between Failures

Highlights of 2018

- Improvements in equipment efficiency, quality and environmental footprint.
- Lowest consumer complaints in company history.
- Achieved productivity savings of **Rs. 139 million.**
- Gearing up for upgrade in 2019.

Relevant Capital

Manufactured Capital

Financial Capital

Contribution to SDG

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Ongoing focus on enhancing efficiency and productivity has enabled the Company to reduce its manufacturing costs and environmental footprint.

8 DECENT WORK AND ECONOMIC GROWTH

Best in class safety practices have resulted in a injury-free manufacturing environment.

"We are committed to investing in new ways of working in our drive towards a more effective and integrated organisation, which ensures a responsive supply chain, cost efficiencies and improvements in our environmental footprint."

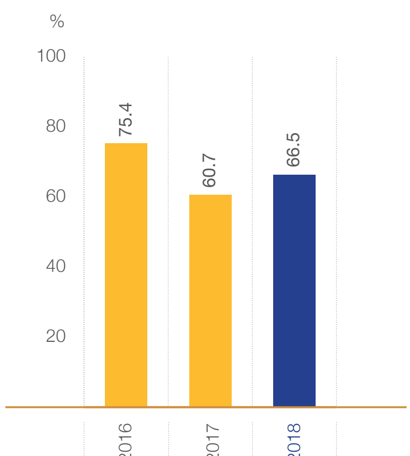
Strategy and Management Approach

During the year we progressed further on our Integrated Work Systems (IWS) journey, with the long-term objective of transforming CTC's manufacturing processes to maximise equipment efficiency. Key pillars of IWS include work process improvement, progressive maintenance, education, training and quality, and features 12 pillars and 75 criteria to eliminate inefficiencies. IWS is a global priority for the Group with several factories in the BAT universe obtaining Phase 1 certification; CTC is the first Sri Lankan company to adopt this internationally renowned framework and hopes to successfully obtain the Phase 1 certification in the near future. In 2018, we focused our attention on building employee capabilities, enhancing equipment efficiency, improving the factory layout and strengthening safety mechanisms.

During the year we focused on gearing for capacity and technology footprint upgrade. The expansion will feature new machinery, enhanced manufacturing capabilities and an improved technology footprint. In ensuring readiness for this upgrade, we sought to strengthen employee capabilities by providing overseas exposure – both in other BAT markets and with Original Equipment Manufacturers (OEM). We also sought to improve the factory layout to drive more lean and agile manufacturing and strengthened safety procedures in preparing for the new machinery.

CTC has consistently recorded improvements in factory efficiency and productivity and continues to be acknowledged as one of BAT's best performing factories. The Company also frequently obliges to the requests of other FMCGs by hosting them at the factory and showcasing best-in-class manufacturing practices. During the year the Overall Equipment Efficiency (OEE) ratio improved further to 66.5% from 60.7% the year before, while Mean-time Between Failures (MTBF) was also further improved. The primary manufacturing department of the factory has performed extremely well in 2018 and has delivered all the quality KPIs as per set targets, achieving better performance year-on-year. The Quality to Consumer and Quality to Specification indexes clocked in at 86% and 96% respectively and remains the highest in the South Asia Cluster. CTC also recorded the lowest customer complaints in the Company's history, amounting to 9.1 complaints per billion sticks sold. All environmental targets were also met with marked reductions in energy and water intensity (refer to page 54 for further information).

Overall Equipment Efficiency (OEE)



Way Forward

The primary focus for 2019 will be the planned upgrade, which will enable us to manufacture a broader product range. Efforts are also ongoing to obtain the IWS-Phase 1 certification. We will continue to work towards driving cost effectiveness, productivity savings and eliminating inefficiencies in our quest to achieve manufacturing flexibility and excellence.

Leaf and Supply Chain Operations

2,436 MT
Tobacco leaf purchased

20,000
Persons engaged in tobacco farming

176,000+
Livelihoods supported across the supply chain

Highlights of 2018

- Sourced **100%** of our leaf requirement locally,injecting **Rs. 0.9 billion** to the rural economy.
- Launched the 'Farmer Sustainability Monitoring App'.
- Introduced Loose Leaf Barn technology for tobacco leaf curing.
- Conducted a rationalisation and consolidation of non-leaf suppliers.

Relevant Capital

- Financial Capital
- Social and Relationship Capital
- Natural Capital

Contribution to SDG

- SDG 1: We provide our farmers with a sustainable and secure source of income, supporting their livelihoods.
- SDG 8: We are working to create a more conducive environment for tobacco farmers.
- SDG 13: The recently introduced Loose Leaf Barn system for curing is expected to significantly trim emmissions.
- SDG 15: We are working to protect and restore natural capital and biodiversity in farming communities.

"Tobacco leaf is our primary input material and therefore the farmers who grow it are crucial to the continued success of our business."

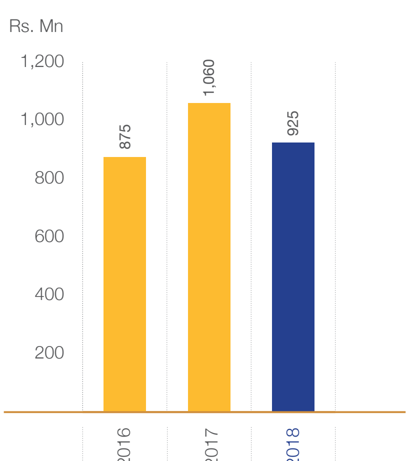
Strategy and Management Approach

Tobacco Leaf Suppliers

As the implications of climate change intensify across the world, agricultural supply chains including tobacco are vulnerable to a range of different risks. Understanding these challenges and offering solutions is central to our leaf operations and we offer a holistic value proposition to farmers, which has allowed CTC to develop a secure supply chain despite numerous external challenges.

In 2018, CTC sourced the entirety of its tobacco leaf requirement from local farmers to cater to demand and increase leaf stock duration, which has injected Rs. 0.9 billion to the rural economy. Although unfavourable weather conditions adversely impacted the main harvesting season, our continued guidance and financial support to farmers during the alternate season enabled us to secure the full requirement locally. We continue to support farmers through the provision of machinery such as grass cutters and inter-cultivators, while providing more disease resistant crops and hybrid seeds to enable higher yields.

Leaf Purchases



Shortage of labour is a key issue faced across agricultural supply chains and during the year we introduced a new curing technology – Loose Leaf Barns, which reduces the labour requirement by more than 30%. This technology leads to substantial energy savings and emission reductions, while significantly trimming the time spent on curing.

We continued to strengthen our team, both through recruitment and training opportunities. Skill development is an ongoing focus and 2 leaf employees were seconded for foreign training during the year. Extension officers underwent a modular-based technical training programme and upon completion received a global certification from BAT. While external pressure by Government authorities on tobacco farmers has led to demoralisation across our supply chain, the deep relationships that our extension officers have nurtured with these farmers enabled us to counter this to a certain degree. These officers visit the farmers at every stage of the growing cycle, gaining insights into the challenges faced and the wider issues affecting the communities.

↗ Sustainable Tobacco Programme (STP)

STP is an industry-wide standard, which is used to assess tobacco leaf suppliers and has criteria that is aligned to international standards including the International Labour Organisation (ILO) and the UN Guiding Principles on Business and Human Rights. All our farmers are expected to complete a comprehensive assessment on the four pillars of crop, environment, people and facilities encompassing 178 criteria.

Crop

- Seed testing and certification
- Soil analysis and fertiliser management
- Tobacco crop management best practices
- Rational use of agrochemicals and other ways for pest and disease control
- Crop hygiene and contaminants control
- Farmer profitability

People

- Child labour prevention
- Safe working environment
- Fair treatment
- Freedom of association
- Legislation compliance
- Terms of employment

Environment

- Sustainable management of water, soil and forests
- Pollution control
- Waste management
- Recycling
- Fuel and energy reduction and GHG reduction
- Biodiversity

Facilities

- Hygiene in the working place
- Health
- Safety and protection
- Prevention of accident and emergency
- Medical facilities
- Facility security

Leaf and Supply Chain Operations

In 2018, CTC launched the 'Farmer Sustainability Monitoring App', a mobile application for monitoring the above criteria. Farmers can input the relevant assessment information and provide verification using biometrics through this application, which is administered by the extension officers. The application tracks a range of indicators and allows us to access all relevant information on a real-time basis.

↗ Thrive: Sustainable Agriculture and Farmer Livelihoods

BAT launched Thrive, a global programme, which aims to identify and address long-term issues faced by tobacco farming communities through a collaborative and sustainable approach. The programme defines 'five capitals', namely financial, natural, physical, human and social and a set of 14 indicators to measure the strength of each capital. Strength in all five aspects is expected to enable farmers and rural communities to prosper.

Financial Capital

Engaging in tobacco farming allows farmers to have a healthy and sustainable alternate source of income. Prices and purchase quantities are negotiated with barn owners and the Department of Agriculture and guaranteed at the start of each growing season, ensuring transparent and fair pricing. In addition, farmers also receive loan facilities to help meet financial requirements during the crop cycle inclusive of flexible payment terms to minimise financial burden in periods of adverse weather. During the year we also distributed alternative crops such as maize seeds and vegetables valued at Rs. 6.5 million to encourage diversification of farmers' crops.

Natural Capital

We provide guidance to farmers on sustainable agricultural practices with the objective of preserving soil health, forestry and bio-diversity. Technical training provided on application of fertilisers, soil mapping, introduction of hybrid seeds and conservation techniques among others. Meanwhile we also provided all required agricultural inputs for cultivation of the crop on credit basis. This not only supports our farmers but also ensures that only approved fertilisers that meet specified quality standards are used for tobacco cultivation, eliminating any adverse residual impacts of heavy metal contamination of the soil.

Physical Capital

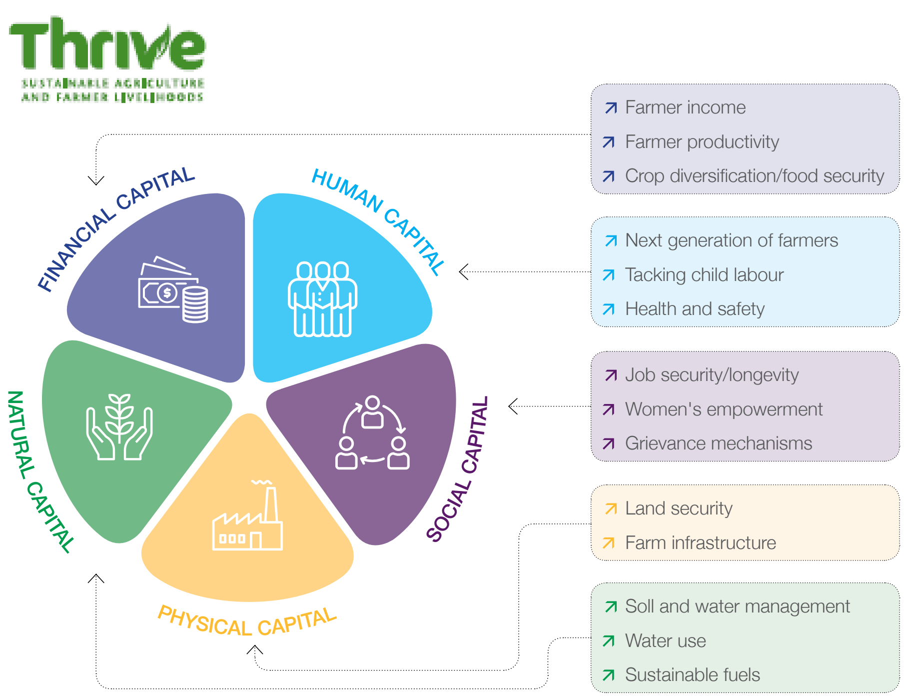
We strive to ensure that tobacco growing areas are viable places to live and work through providing access to technology and investing in community projects.

Human Capital

We focus on the health and safety aspects of farmers, particularly raising awareness on the importance of personal protective equipment such as gloves and masks. Agricultural supply chains are particularly vulnerable to child labour, and we ensure that our contracted farmers do not employ children or engage in any form of human rights abuses. Compliance is monitored through the STP and includes site visits and review of school attendance sheets. In line with the Group's continuing commitment to the UN Declaration of Human Rights, BAT's Standards of Business Conduct (SOBC) also contains our Human Rights Policy and details our commitment to eliminate child labour, ensure no exploitation of labour and respect for freedom of association. BAT is also a co-founding member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and continues to play an active role together with the ILO, Save the Children and industry counterparts.

Social Capital

The programme attempts to address larger social challenges faced by farming communities in Sri Lanka such as access to education, female empowerment and job security.



Way Forward

The tobacco farmers are an integral component of our supply chain and we will continue to work with them to ensure that we address their issues and support sustainable livelihoods, while securing the supply of high-quality tobacco leaf essential for our operations. We hope to roll out the 'Farmer Sustainability Monitoring App' to cover all our farmers in the coming year.

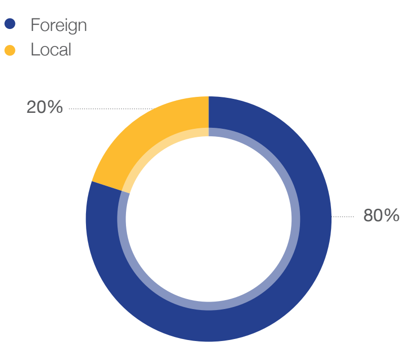
Non-leaf Suppliers

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

Profile of non-leaf suppliers: Direct Material Suppliers

Total Direct Material Suppliers	22
Relationship of 25 years or more	4
Relationship between 10-25 years	7
Relationship of less than 10 years	11

Non-leaf Supplier Profile



Sustainability Considerations in Supplier Screening

We employ global best practices prescribed by BAT when enlisting, selecting, and evaluating suppliers. We assess the business enablers these suppliers have in place, provide a measure of the risk the Company is exposed to, and identify joint improvement opportunities to overcome such risks. By benchmarking suppliers against excellence criteria and robust practices, we are able to objectively rate them, identify 'pressure points', and appropriately manage the risks identified. In cases where suppliers do not meet the prescribed criteria, we provide guidance on how the necessary systems and tools can be implemented, thereby encouraging effective identification, management and risk evaluation of sustainability topics.

In 2018 we placed strategic emphasis on rationalising and consolidating our non-leaf supplier base resulting in substantial efficiencies and productivity improvements in selected service categories.

Product Responsibility

Zero
Instances of non-compliance pertaining to marketing regulations

Zero
Instances of non-compliance relating to product labelling

Zero
Instances of non-compliance relating to product responsibility

Highlights of 2018

21

Strengthened the Youth Access Prevention Programme.

Relevant Capital

Social and Relationship Capital

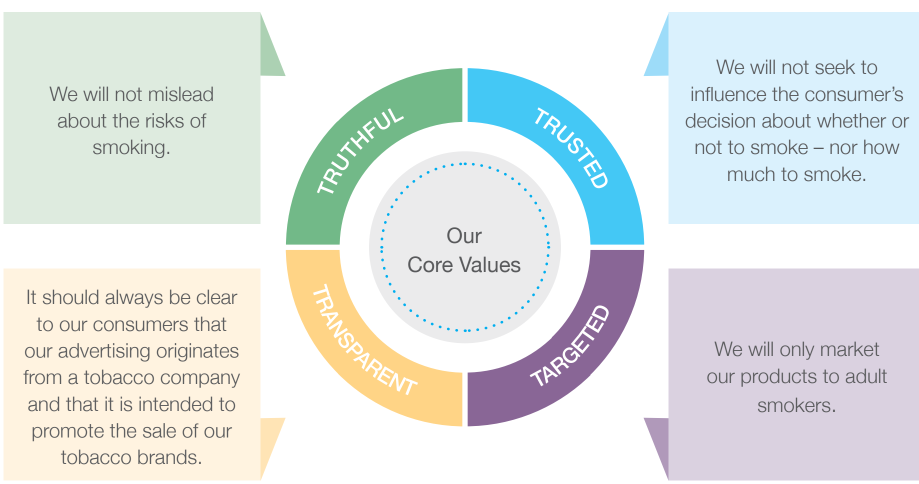
Contribution to SDG

BAT is driving industry innovation through its range of NGPs, based on sound science and leading technology.

"Given the health risks associated with cigarettes, it is vital that we satisfy adult consumer needs in a responsible manner, while effectively complying with the regulations on how our products should be manufactured and marketed."

Strategy and Management Approach

We are committed to marketing our products in a responsible manner and strict compliance to the National Authority on Tobacco and Alcohol (NATA) Act No. 27 of 2006 and BAT's International Marketing Principles (IMPs) ensures that we do so. All our marketing communications are governed by the IMPs, which are in some instances more restrictive than the NATA Act. The IMPs comprise four core values and make it clear that we will only market cigarettes to adult consumers and demonstrates our commitment to always be truthful about the risks associated with smoking.



According to the regulatory guidelines in place, we are required to display the following information related to health risks on all our products.

- Tri-lingual text health warning.
- TAR and Nicotine content.
- Graphical Health Warning (GHW) covering 80% of the top surface area of the front and back of the pack.

Product Standards

All of CTC's products are manufactured in line with BAT's stringent quality requirements and industry leading, world class product standards. Products are formulated and manufactured following evaluation of global consumer patterns and utilise innovative technology and cutting-edge science. Ingredients in our products obtain a food-grade certification and we maintain a very high level of product integrity and traceability thoughout our value chain.

Preventing Youth Smoking

The IMPs consist of stringent guidelines to ensure that we market our products only to legally permitted adult smokers. In addition, in line with our Youth Access Prevention (YAP) Policy we also work with our retailers and traders to prevent underage access through raising awareness on relevant laws and requirements. During 2018, the programme was further strengthened by revising the communication material.

Harm Reduction

At a global level, the Group is committed to reducing the public health impact of smoking, by offering adult consumers potentially reduced-risk alternatives. Harm reduction is a key pillar of BAT's strategy and since 2012, has invested approximately US$ 2.5 billion in building and commercialising a generation of alternatives to smoking referred to as NGPs. As a member of the BAT, CTC has access to the Group's research and expertise. BAT was the first international tobacco company to launch a vapour product and following the acquisition of Reynolds American in 2017, it is now one of the world's largest vapour companies.

Corporate Behaviour

Highlights of 2018

Contributed **Rs. 125 billion** to the State's coffers through excise, levies and taxes.

Infused **Rs. 11.4 billion** to the local economy across the value chain.

Strengthened several aspects of the governance framework including the Anti-Bribery and Corruption Procedure, Sanctions Compliance Procedure and the General Data Protection Regulation.

Relevant Capital

Social and Relationship Capital

Contribution to SDG

We work in partnership with an array of external stakeholders including suppliers, retailers, and industry stakeholders.

We have stringent procedures in place to tackle any form of bribery or corruption.

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

Strategy and Management Approach

Our approach to responsible corporate behaviour is clearly articulated through BAT's Guiding Principles, Standards of Business Conduct (SOBC) and a suite of well-established policies, procedures and standards. These values are increasingly relevant in the complex operating landscape we face today. CTC continues to maintain the highest level of transparency and accountability in all its operations.

- Statement of Business Principles: Our core beliefs and values.
- Standards of Business Conduct: Includes core policies for areas such as respect in the work place, whistleblowing, bribery and corruption, illicit trade and human rights among others.
- Guiding Principles: Defines our organisational culture and how we deliver our strategy.
- Supplier Code of Conduct: Minimum standards we expect from all our suppliers.
- International Marketing Principles: Governs the marketing of our products.
- Principles of Engagement: Provides guidance for our external engagement.
- Anti-Bribery and Corruption Procedure: Defines how our third party service providers should conduct business in a manner that avoids risk of bribery and corruption.

Governance Framework

In addition to the policies, principles and standards of the BAT Group, CTC's corporate governance framework complies with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant laws and regulations. The Company also adopted the revised Code of Best Practice on Corporate Governance 2017 issued by the Institute of Chartered Accountants of Sri Lanka (Please refer page 74 for further information on the Company's governance practices).

Key governance related developments during the year are listed below and described more in detail on pages 74 to 93 of this Report.

- Anti-Bribery and Corruption Procedure: Introduced a scoring system for all third parties that the Company interacts with, to assess exposure to the risk of bribery and corruption.
- Revised the Company's data and privacy policy to include requirements of the General Data Protection Regulation (GDPR).
- Strengthened the Sanctions Compliance Procedure.
- SOBC: The coverage of employees signing off on the SOBC was increased to 100% and now includes contractual employees.

  Conducted a policy roadshow and SOBC cascade to cover all employees during the year.

Corporate Behaviour

Stakeholder Engagement

Understanding the views and concerns of our stakeholders allows us to formulate our strategy, policies and procedures in a manner that addresses their varying needs. The platforms we use to engage with our stakeholders are listed below;

	Ongoing Engagement Methods	Key Topics
Shareholders	↗ Annual General Meeting and publication of Annual Report. ↗ Quarterly financial results released to Colombo Stock Exchange. ↗ Announcements to the Colombo Stock Exchange. ↗ Corporate website.	↗ Sustainable growth in financial, social and environmental performance. ↗ Financial impact of increasing regulation and government levies. ↗ Returns commensurate with the risk undertaken. ↗ Corporate governance and risk management frameworks. ↗ Transparency and credibility of disclosures. ↗ Corporate reputation.
Employees	↗ Employee satisfaction surveys. ↗ Training and development programmes (continuous). ↗ Tribal Talk forum. ↗ Interact (Intranet). ↗ Company Plan Cascade/Corporate Line of Sight. ↗ Engagement through trade unions. ↗ Performance appraisals. ↗ Manufacturing team meetings. ↗ Functional/departmental meetings. ↗ Sports and Recreational Club activities. ↗ Structured internal communications through e-mailers, TV screens etc.	↗ Performance and reward management. ↗ Opportunities for skill and career development (eg: Global Talent Platform, BAT Careers Website, International Assignments and Exchange Programmes). ↗ Employee safety (eg: PULSAR). ↗ Ethics and business conduct. ↗ Improving Diversity (eg: Participation in management teams). ↗ Freedom of association and collective bargaining. ↗ Work-life balance. ↗ Employee health and welfare. ↗ Open office culture. ↗ Employee recognition (eg: Rapid recognition, higher visibility).
Consumers	↗ Consumer feedback is obtained through a General Consumer Survey conducted by a third party agency. ↗ Consumer hotline. ↗ One-to-one feedback through retailers.	↗ Value for money. ↗ Customer service and satisfaction. ↗ Product availability. ↗ Product composition. ↗ Innovation and company initiatives for harm reduction.
Industry Collaborators	↗ Collaboration through business forums.	↗ Creating a conducive business environment. ↗ Policy stability.

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

↗ Tax Contributions

We are committed to being open and transparent with tax authorities and are steadfast in our commitment to contribute towards the country's development through taxes. Tobacco taxation in Sri Lanka is one of the highest in the world, and our tax footprint comprises of corporate tax, excise duties, value added tax and employment taxes as well as tax we collect on behalf of the Government such as nation building tax. CTC maintains its position as the country's largest individual tax contributor, injecting to Rs. 125 billion in excise, levies and taxes in 2018, which amounted to 6% of Government tax revenue. That said, the industry is yet to recover from the sharp price hike in 2016, which led to an alarming influx of illicit cigarettes, depriving the Government of legitimate taxes. We therefore urge policy makers to design a more coherent framework for excise calculation to ensure sustainable increase in tobacco related revenue to the Government.

Tackling Illicit Trade and the Beedi Market

11%
Growth in illicit market

6%
Illicit cigarette market share

28%
Growth in beedi market

57%
Beedi market share

Highlights of 2018

510 million sticks of illicit cigarettes smoked by consumers.

Rs. 21 billion loss in government revenue due to smuggled cigarettes.

4.85 billion sticks of beedi consumed.

Beedi industry paid only **Rs. 3 billion** in taxes, while accounting for **57%** of the total tobacco market.

Relevant Capital

Financial Capital

Social and Relationship Capital

Contribution to SDG

We continue to support Government authorities in their efforts to curb illicit trading and prevent substandard products from entering the local market.

"Tobacco regulation and taxation in Sri Lanka has only targeted the legal industry, which has led to dramatic increases in the price of legally-manufactured cigarettes, thereby eroding our market share and threatening the sustainability of not just our business but also livelihoods across the supply chain."

Strategy and Management Approach

Successive governments have treated cigarettes as a reliable source of tax revenue and consistent excise-led price increases have made cigarettes in Sri Lanka the second most expensive in the world, based on purchasing power parity. Unfortunately, the country's tobacco regulation has targeted only the legal industry and the increasing price disparity between legal cigarettes and other tobacco products such as beedi and smuggled cigarettes has led to the continued expansion of the latter.

In 2018, the illicit market expanded by an estimated 11%, and an estimated 510 million sticks of illicit cigarettes were smoked by consumers. In addition to eroding CTC's market share, the growth of the illicit market leads to loss of government revenue and increased consumption. In 2018, the Government is estimated to have lost Rs. 21 billion in legitimate taxes due to the inflow of smuggled cigarettes into the country. Meanwhile, it is generally accepted that there is a direct correlation between steep and ad hoc increases in tax and an increase in illicit cigarette sales. It is also an oversimplification to assume that increasing the price of legal cigarettes would lead to a decline in smoking. Following the influx of smuggled cigarettes into the country, the country's total tobacco consumption increased by 15% in 2018, while our volumes remained unchanged.

Unlike legal cigarettes, which are required to comply with the NATA Act, have graphic health warnings and not sold to persons under 21 years, peddlers of illegal cigarettes have no need to comply with any laws and regulations, making them easily accessible to smokers.

The beedi market has also continued to expand against the backdrop of the consistent price increase of legal cigarettes. The manufacture of beedi is a flourishing cottage industry and is considerably underregulated as it enjoys preferential tax treatment from the Government vis-à-vis cigarettes. Beedi remains under-taxed with only 20% tax incidence and no excise being levied, which means that the tax burden falls squarely on legal cigarettes. The widening price disparity has caused notable shifts in consumption patterns, with beedi now accounting for 57% of the market compared to just 20% in 2007. In recent years, there has also been a notable increase in smuggled tendu leaves into the country further depriving the Government of legitimate tax revenue.

The alarming growth in illicit products is an issue that not only harms our business but deprives the Government of taxes, threatens livelihoods across the tobacco supply chain and strengthens organised crime. CTC continues to support the Government in its efforts to curb illicit trading and prevent substandard products from entering the local market.

Way Forward

The BAT Group's experience and expertise in over 180 markets mean that we have much to offer governments and regulators when it comes to developing policies around tobacco. In Sri Lanka there appears to be much debate and misunderstanding among both regulators and the public regarding tobacco regulation. We are therefore keen to engage openly with relevant regulators to highlight pertinent issues in the industry that could defeat the Government's public health objectives while adversely affecting the sustainability of our business.

Environmental Impacts

Fast Facts

39,186gj
Energy consumption

1%
Reduction in energy consumption

32,251cu.m
Water consumption

8%
Reduction in water consumption

92%
Waste recycled

Highlights of 2018

Reductions in both energy and water intensity.

Relevant Capital

Natural Capital

Contribution to SDG

Investments in renewable energy-particularly in the tobacco curing process and in optimising our vehicle fleet.

Sustained reduction in our emission intensity driven by concerted efforts to achieve energy efficiency.

Achieved significant reductions in water and energy intensity.

"We are committed to reducing the environmental impact of our operations and across the supply chain through understanding our impact and then implementing plans to minimise it."

Strategy and Management Approach

Our approach to managing our environmental footprint is governed by the Group's comprehensive Environment, Health and Safety (EHS) Management system that is based on international best practices including ISO 14001. The policy (refer page 145) is applicable to all our operations including the supply chain and its implementation falls under the purview of the EHS Steering Committee. Environmental indicators are monitored on an ongoing basis and reported to BAT, which in turn supports the achievement of the Group's long-term environmental targets. These targets include reducing the Group's global carbon emissions by 80%, by 2050, reducing the total water withdrawn by 35% by 2025 and reducing the waste to landfill by 80% by 2025.

↗ Energy

The Company's key sources of energy are electricity, diesel, furnace oil, and petrol. Efforts to reduce the energy footprint and fossil fuel dependence of our operations include switching to renewable energy, investing in energy-efficient technology and optimising the vehicle fleet with new standards for fuel efficiency. We were also the first market in BAT South Asia to install a solar-powered car charging system offering free charging facilities to all employees. The charger currently generates around 1,000 KwH and we hope to gradually increase investments in renewable energy through scalable planning, with the ultimate objective of reducing dependence on fossil fuels and the national grid. CTC was also selected to attend BAT's recently launched 'EnerCon DMS', a holistic energy conservation programme. The programme allows for daily measuring of energy and water consumption at departmental and equipment level, identifying the losses and take necessary actions on a daily basis to eliminate the losses.

In 2018, the Company's specific energy consumption declined by 3% to 7.1 giga joules per million cigarettes reflecting its continued efforts to improve energy efficiency.

↗ Water

Although our manufacturing processes are relatively less water intensive, we continue to drive efforts towards reducing our water footprint, through employee engagement and improving water efficiency. In 2018 we focused on improving inspection capability with improvements in water monitoring and metering; this enabled us to reduce the quantum of unaccounted water to just 5% prompting the Sri Lanka Water Board to consult CTC in sharing best practices in water management. CTC's specific water consumption declined by 8% to 5.9 cubic metres per million cigarettes to during the period under review.

↗ 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. Effects of climate change, particularly the increased frequency of extreme weather conditions have affected crops in recent times. We continue to provide guidance to tobacco farmers on sustainable agricultural practices, focusing on aspects such as soil conservation, water management and the use of organic fertiliser among others. In 2018, we sourced 2,436 metric tonnes of tobacco leaves.

↗ Waste

We collect, segregate and dispose waste in ways that cause minimal environmental damage as described below. During the year we introduced a more systematic process to segregate waste generated in the office premises facilitating a more responsible disposal method.

	Type of waste	Method of Disposal
Shareholders	Tobacco waste	Sent to third party to be used as an alternative energy source.
	Waste from green leaf threshing	Composted and sent to farmers as fertilisers.
	Waste wrapping and packaging material	Sent to third party for off-site incineration with energy recovery.
	Food waste from canteen	Given to third party as animal food.
	Used CFLs and fluorescent light bulbs	Sent to a recycling facility operated by third party.
	Other waste	Handed over to the Municipal Council.

Environmental Impacts

Bio Diversity

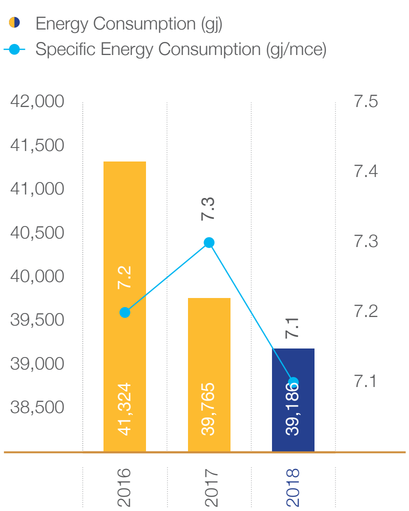
In 2018, we carried out our annual tree planting programme under the theme 'Plant a Tree – Save The Planet'. The programme was carried out in Padavigama, Meegalewa, where over 1,000 seedlings and 400 packs of various varieties of vegetable seeds were distributed to over 600 residents in the area including tobacco farmers.

Emissions

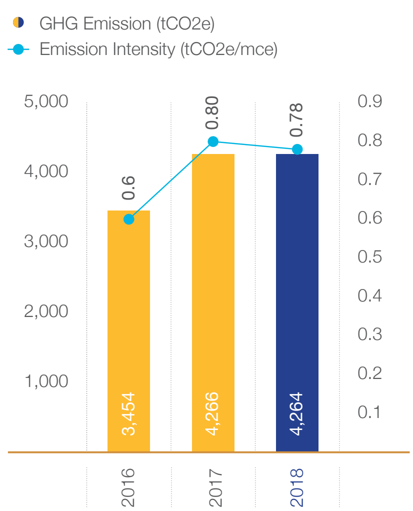
Our efforts to improve energy efficiency including switching to renewable energy sources, investing in energy-efficient technology and optimising our fleet has supported a reduction in the Company's carbon footprint. In 2018, the total greenhouse gas emissions decreased to 4,264 tonnes of Carbon Dioxide equivalent. The Company calculates its carbon footprint based on the Greenhouse Gas Protocol published by the World Resources Institute.

Green House Gas Emissions	2018 (tCO2e)	2017 (tCO2e)
Scope 1: Energy consumed at our factories, offices and fuel consumed by our fleet vehicles	1,234	1,262
Scope 2: Purchased electricity	2,726	2,651
Scope 3: Most relevant and material areas of freight, waste disposal and business travel	304	352

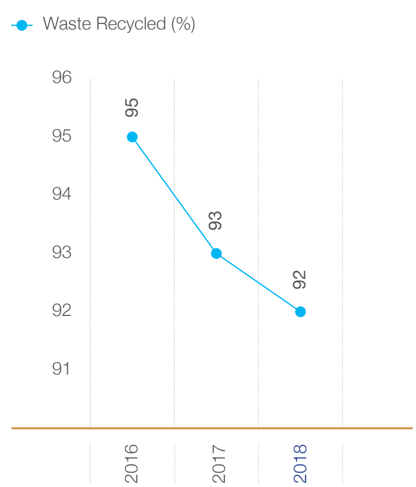
Energy Consumption



Green House Gas Emissions

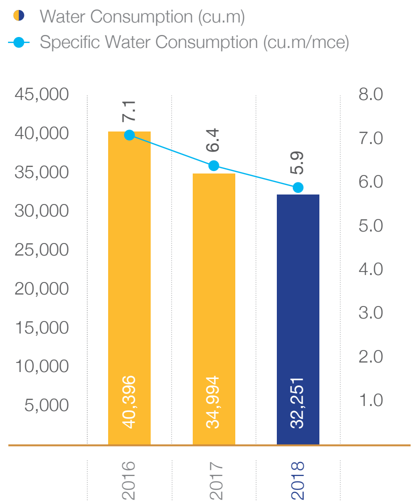


Waste Recycled



Waste Generated

Water Consumption



Way Forward

The planned investment in more efficient and sophisticated machinery and equipment is expected to provide an opportunity to further reduce the Company's environmental footprint in 2019 and beyond. We are committed towards contributing to BAT's global environmental targets through focus on better monitoring systems, employee engagement and more efficient equipment and technology.

gj - Giga joules
gj/mce - Giga joules per million cigarette equivalent
tCO2e - Tonnes of Carbon Dioxide equivalent
MT - Metric tonnes
MT/mce - Metric tonnes per million cigarette equivalent
cu.m - Cubic metres
cu.m/mce - Cubic metres per million cigarette equivalent

Community Engagement

76,396
Beneficiaries

19,664
Families

Rs. 523 Mn
Cumulative investment in SADP

Highlights of 2018

Rs. 41.8 million invested in SADP during the year.

76,396 beneficiaries in **19,664** families across **16** districts.

Relevant Capital

Social and Relationship Capital

Contribution to SDG

10 REDUCED INEQUALITIES: Supplementary income sources provided to families through SADP.

2 ZERO HUNGER: Food intake of SADP families improved in line with the progression of the project.

5 GENDER EQUALITY: In **94%** of the families involved in the programme, women led the implementation of the projects.

15 LIFE ON LAND: We offered guidance on ecologically sustainable agricultural methods aimed at preventing the degradation of land.

"We have a long and proud history of rural agriculture and we are committed to leveraging our global insights to drive community empowerment across the island through our unique CSI initiative Sustainable Agricultural Development Programme (SADP)."

Strategy and Management Approach

CTC's corporate social investments (CSI) are underpinned by the well-established policies of the BAT Group, primarily the Group Strategic Framework for Corporate Investment. The framework clearly articulates how companies are expected to develop, deliver and monitor community investment programmes. All CSI activities are managed at a local level to effectively cater to community specific challenges and drive needs-based development.

The CSI Committee comprises the Chairman of the Company and 3 Directors. Their role is to ensure that the CTC's CSI projects are aligned to the group framework. The CSI projects are managed through Outreach Projects (Guarantee) Limited, a dedicated organisation, which was set up for the execution and management of CSI projects.

↗ Sustainable Agricultural Development Programme

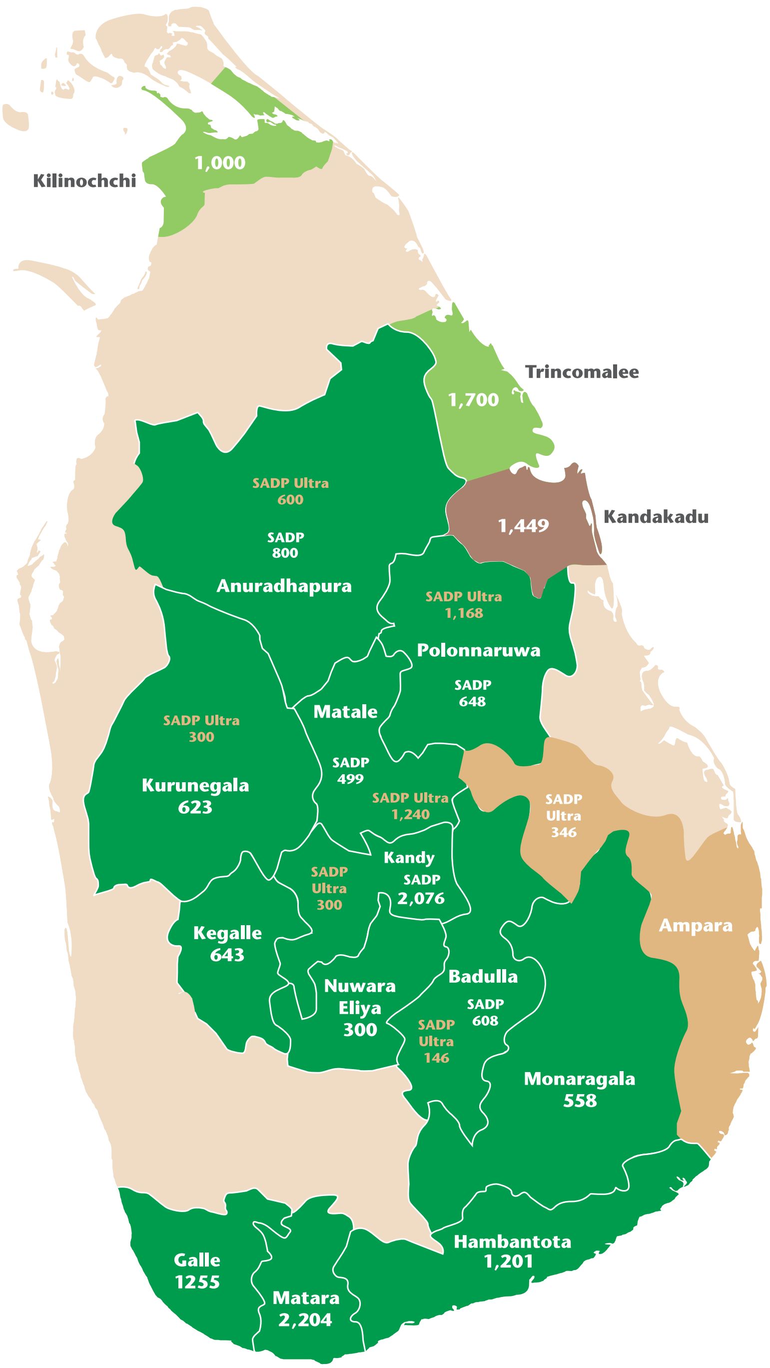
The Company's flagship CSI initiative is SADP and its primary focus is to contribute towards uplifting communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment. Since commencement 12 years ago, the programme has directly benefited over 11,415 economically underprivileged families through an investment of over Rs. 416 million.

↗ Operating Model

The programme is structured in a manner that allows CTC to identify individuals living below the poverty line in selected villages and provide them agricultural and other inputs to achieve self-sufficiency through home gardening and animal husbandry. The project is implemented in four stages over a period of two-and-a-half years as illustrated below;

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

Community Engagement



Number of SADP Families By Project

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

SADP Families by District

SADP

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

SADP Plus

Trincomalee	1,700
Kilinochchi	1,000

SADP Lite

Kandakadu	1,449

SADP Ultra

Matale	1,240
Polonnaruwa	1,168
Badulla	146
Ampara	346
Anuradhapura	600
Kurunegala	300
Kandy	300

Over the years, the programme has been implemented in different variants based on the specific needs of the respective communities.

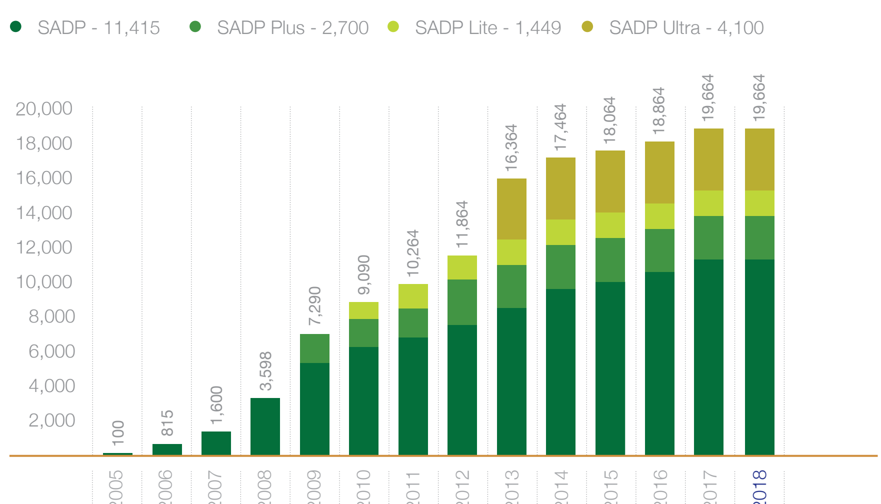
	SADP Plus	SADP Lite	SADP Mega	SADP Ultra	SADP AGRO WELLS
Model	Provision of agricultural inputs enabling families to cultivate a range of cash and other crops for their consumption.	Involves agriculture related vocational training for a period of 12 months.	Creation of a 12-acre model farm in Sooriyawewa to serve as a knowledge hub for farmers.	Providing agricultural inputs to cultivate cash crops such as maize and home gardening crops in tobacco fields.	The project involves the construction of 100 wells in drought-stricken areas in Mullaitivu.
Objective	Uplifting livelihoods of rural families ravaged by conflict in the North and East regions.	Support the rehabilitation of ex-LTTE combatants in the Kandankadu farm.	Propagating ecologically-friendly agricultural practices.	Providing farmers with an additional source of income while enhancing soil quality and biodiversity.	Provision of clean water to water-stressed communities.
Key facts	Families: 2,700 Total investment: Rs. 79.2 million	Families: 1,449 Total investment: Rs. 2.9 million	Total investment: Rs. 6.8 million	Beneficiaries: 4,100 Total investment: 17.8 million	Beneficiaries: 400 Total investment: Rs. 24 million

Impact

The programme has been formulated to achieve 8 distinct objectives and performance is monitored against these through measurable, pre-defined KPIs. Progress made during the year towards achieving these objectives are detailed in the following section.

Objective	Results
Objective 1: Expansion of the programme	The Progress of SADP (chart below)

The Progress of SADP



Community Engagement

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

Per day calorie intake	Recommended daily allowance	Base line	Mid line	Graduate
Energy (cal)	3,000 (cal)	0.89	0.97	1.23
Protein (g)	55 (g)	0.87	1.20	1.13
Fat (g)	65 (g)	1.02	1.25	1.37
Carbohydrate (g)	300 (g)	1.41	1.69	1.66
Calcium (mg)	600 (mg)	0.75	0.92	1.12
Iron (mg)	25 (mg)	0.81	0.95	1.09
Retinal (ug)	750 (ug)	0.44	0.59	0.48
b - Carotene (ug)	3,000 (ug)	0.65	1.13	1.51
Vitamin C (mg)	50 (mg)	2.17	4.06	4.76

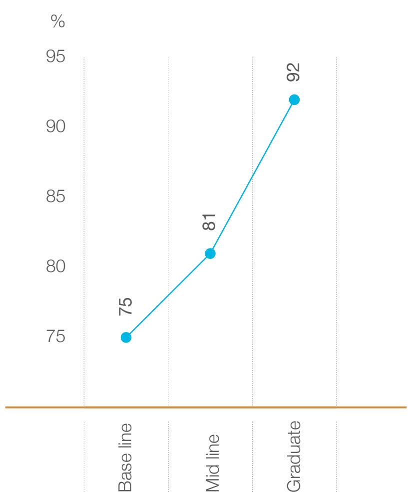
Objective 3:
Increase the level of agricultural knowledge

Capacity building programmes and ongoing technical guidance on sustainable agricultural methods have enabled the beneficiaries to generate additional income while fulfilling the required nutritional requirements.

Objective 4:
Provide beneficiaries with an additional source of income

Additional income generation from SADP

Based on the independent study conducted by Ernst & Young, beneficiary families recorded a consistent growth in income generated as a direct result of SADP. In the first year, a family earned approximately Rs. 3,000 per month and this increased to Rs.12,700 over the next two years and Rs.18,200 after the first 30 months.

Objective	Results
Objective 5: Female empowerment	In 94% of the participant families, women led the implementation of the project and played a vital role in sustaining it throughout its life cycle. The financial inclusion of women contributes towards uplifting the socio-economic standards of families and SADP has directly contributed to empowering and supporting women in these economically underprivileged communities.
Objective 6: Combat social disharmony	Family Harmony Status  Amongst these communities, the primary reasons for family disharmony are prevalence of hunger and poverty. Evidence based findings by Ernst & Young reveal that with the progression of the SADP programme, family harmony of beneficiary families improved significantly as demonstrated below.
Objective 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.
Objective 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. Almost 99% of beneficiary families were compliant with the organic practices recommended by the programme.

Managing Risk

The Board of Directors conducts a robust assessment of the key risk factors that could affect the Company's future performance, stability, business model or its supply chain. The principal risk factors affecting CTC have remained broadly unchanged in 2018, although the intensity and/or potential impact of certain risk factors have changed. In a broader perspective the political instability in the country during the last quarter of 2018 and the resultant macro-economic implications had an impact on demand conditions and in turn the overall risk profile of the Company.

Risk Governance

The Board holds apex responsibility for ensuring that the Company's risks are identified and mitigated 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 quarterly. 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.

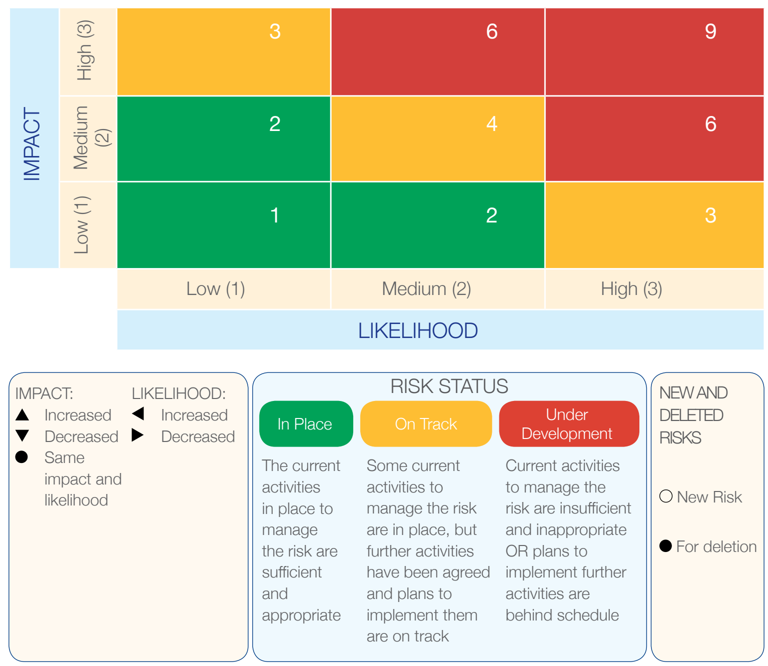
The Company's risk management framework is characterised by defined mandates, comprehensive policy frameworks and clear governance structures. As a subsidiary of a global group, CTC also benefits from the international harmonisation of global best practices in risk management and has been successful in nurturing a culture, which aptly balances risk and growth considerations.

Governance Structure

Management Approach

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

Principal Risks in 2018

The Company's key risk exposures for 2018 are given below. When describing each risk, we have considered it in the context of the Company's strategic priorities along with the potential impact and mitigation mechanisms. The risks detailed below are the ones that the Board believes could have the most significant impact on the Company's ability to create value. Some of these major risks are outside the control of CTC and other factors besides those listed below may affect the Company's performance. Some risks may be unknown at present; others which are currently immaterial, could emerge as material risks in the future.

Managing Risk

Summary of Key Risks of 2018

Principal risks	Risk assessment compared to last year		Timeline of risk	Risk management mechanisms in place	Strategic impact
	Impact	Likelihood			
Competition from illicit trade	↑	↑	Long term	○	
Competition from beedi	↑	↑	Medium term	○	
Unfavourable and unplanned excise and taxes impacting consumer affordability	↑	→	Medium to long term	○	
Unreasonable regulations and unlawful enforcement of tobacco regulations	→	↑	Long term	○	
Difficulties in recruiting/retaining talent	→	→	Long term	○	

↑ Increased → Unchanged

Competition from illicit trade

The illicit market has continued to expand, growing by 11% to an estimated 510 million sticks in 2018. Illicit products consist of, smuggled products, counterfeit cigarettes and locally manufactured products on which applicable taxes are evaded. Given the increasing price disparity between legal and smuggled cigarettes, consumers have increasingly turned to the latter, thereby defeating the Government's public health objectives and causing significant losses in tobacco revenue. CTC's market share has continued to decrease over the past decade or so as tax and other tobacco regulations have primarily targeted legally-manufactured cigarettes.

Competition from beedi

Beedi has continued to gain market share accounting for 57% in 2018 compared to just 20% in 2007. The beedi market continues to be under regulated and under taxed with only a 20% tax incidence and no excise. In recent years there has also been a spike in smuggled tendu leaf imports, which further deprives the Government of legitimate taxes.

Unfavourable and unplanned excise and taxes impacting consumer affordability

Excise duties and taxes on tobacco products are a key source of government revenue, leading successive governments to view the industry as a potential source of additional revenue during periods of fiscal difficulties. Over the past 5 years, cigarette prices increased by more than 96%, driven by excise and taxes. In 2016 we were compelled to increase prices by more than 40% due to an ad hoc and sharp increase in excise taxes. Adjusting retail prices to reflect steep escalation of levies have an adverse impact on consumer affordability and the overall value of the industry. Demand conditions are yet to recover following this spike and is likely to have long-term implications on industry sustainability.

Unreasonable regulations and unlawful enforcement in tobacco regulations

As a responsible corporate citizen, CTC ensures full compliance with applicable regulations at all levels. The enactment of unreasonable regulations and at certain times, the unlawful enforcement of regulations renders it challenging for the Company to compete effectively, increasing business costs and complexity. Unlawful and unwarranted pressure on our tobacco farmers and across the distribution network by certain government authorities have also demoralised our business partners while threatening livelihoods.

Difficulties in attracting/retaining talent

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

Best in Class

Leadership and Governance

Board of Directors

Syed Javed Iqbal
Chairman

Michael Koest
Managing Director and CEO

Amun Mustafiz
Finance Director

Anil Tittawela
Independent Non-Executive Director

Yudhishtran Kanagasabai
Independent Non-Executive Director

Kenneth Allen
Non-Executive Director

Board of Directors

Syed Javed Iqbal

Chairman

Position

Chairman since 7 August 2018

Current appointments

Area Director – South Asia Cluster

Past appointments

Finance Director for the BAT Swiss business unit. Finance Controller for BAT Korea.

Director Finance and IT of BAT Pakistan.

Skills and experience

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 and MIS.

Michael Koest

Managing Director and CEO

Position

Managing Director and CEO and Chairman of Nominations Committee and member of Corporate Social Investment Committee since 1 March 2016.

Current appointments

Non-Executive Director, Pakistan Tobacco Company Limited.

President, American Chamber of Commerce Sri Lanka (AMCHAM).

Past appointments

Commercial Director, BAT Korea.

Director Primera BV, The Netherlands.

Skills and experience

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

Amun Mustafiz

Finance Director

Position

Finance Director and member of Corporate Social Investment and Related Party Transactions Review Committee since 14 December 2018.

Current appointments

N/A

Past appointments

Commercial Finance Controller – Operations, BAT Bangladesh.

Senior Corporate Finance Manager, BAT Japan.

Skills and experience

Ms. Mustafiz joined British American Tobacco in 2005 in Bangladesh. She has held various positions in areas of Statutory, Planning & Reporting, Audit, Compliance and Commercial Finance at British American Tobacco – a global FTSE 100 FMCG business. She has experience in working across all areas of finance and in some diverse and complex markets, including BAT Japan. She has shaped up some of the key strategies in the business she has worked in while driving for a high-performing culture across the company and maintaining a robust control environment.

Ms. Mustafiz holds a degree in BBA (Hons) degree from the Institute of Business Administration, Dhaka University – Bangladesh. She is also a member of the Association of Certified Chartered Accountants (ACCA) UK.

Kenneth Allen

Non-Executive Director

Position

Non-Executive Director and member of Audit Committee since 7 October 2014.

Current appointments

Head of Regional Operations for Finance at BAT Singapore.

Past appointments

Operations Finance Manager and Corporate Finance Manager for BAT New Zealand. Supply Chain Finance Manager and Financial Controller for BAT Australia.

Skills and experience

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.

Anil Tittawela

Independent Non-Executive Director

Position

Independent Non-Executive Director and Chairman of Board Compensation and Remuneration and Corporate Social Investment Committee and member of Related Party Transactions Review Committee and Audit Committee since 1 February 2018.

Current appointments

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

Past appointments

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

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

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

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

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

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

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

Skills and experience

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

Yudhishtran Kanagasabai

Independent Non-Executive Director

Position

Independent Non-Executive Director and Chairman of Audit Committee and Related Party Transactions Review Committee and member of Board Compensation and Remuneration Committee and Corporate Social Investment Committee since 1 February 2018.

Current appointments

Non-Executive Independent Director of Cargills Food Company Limited, Millennium Information Technologies (Private) Limited, Hunters Limited PLC, Lanka Canneries Limited and Easwaran Brothers Exports (Private) Limited.

Commissioner of The Insurance Regulatory Commission of Sri Lanka.

Past appointments

Senior Partner/Chief Executive Officer of PricewaterhouseCoopers in 2006. He retired on 31 March 2017.

Chairman of the Board Audit Committee of Union Bank PLC from August 2016 to 31 December 2018.

Skills and experience

A Fellow of the Institute of Chartered Accountants of Sri Lanka, worked at PricewaterhouseCoopers. Having joined the Firm since its inception, he held progressively responsible positions and was the Senior Partner of PricewaterhouseCoopers, Sri Lanka and the Maldives with a career span of over 30 years including two years with the Singapore firm. Yudy has wide exposure in providing business and technology consulting services and specialises in business restructuring and risk alignment. His clientele included multinationals, state owned enterprises, large listed and private owned companies and family owned businesses across Industries, and in particular banks and telcos – in Sri Lanka, Maldives and Singapore.

Executive Committee

Rukshan Gunatilaka
Head of Supply Chain

Kavinda Nanayakkara
Head of Marketing

Dinesh Dharmadasa
Head of Legal and External Affairs

Michael Koest
Managing Director and CEO


Amun Mustafiz
Finance Director
Arjuna Rajawasan
Head of Human Resources
Ranjan Seneviratne
Company Secretary and Head of Legal

Corporate Governance

"At CTC, the delivery of strategic aspirations and the creation of shared value are underpinned by robust governance practices, which extend beyond statutory requirements to embrace global best practice. The Board of Directors is therefore fully committed to ensuring that the Company manages its operations with the highest degree of transparency, integrity and corporate conduct."

Governance Framework

As a subsidiary of BAT, which is globally renowned for its best-in-class governance practices CTC benefits from the robust policy framework and standards as well as well-defined governance structures of its Parent. The Company's Corporate Governance framework has been developed broadly in line with the Group's policies, principles and standards and refined to comply with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant laws and regulations. The Company has also adopted the revised Code of Best Practice on Corporate Governance 2017 issued by the Securities & Exchange Commission of Sri Lanka. The Company's strong governance philosophy is its vehicle to sustainable business relationships, business integrity and transparency and long-term value creation to all stakeholders.

The Company's governance framework is governed by the following external and internal instruments;

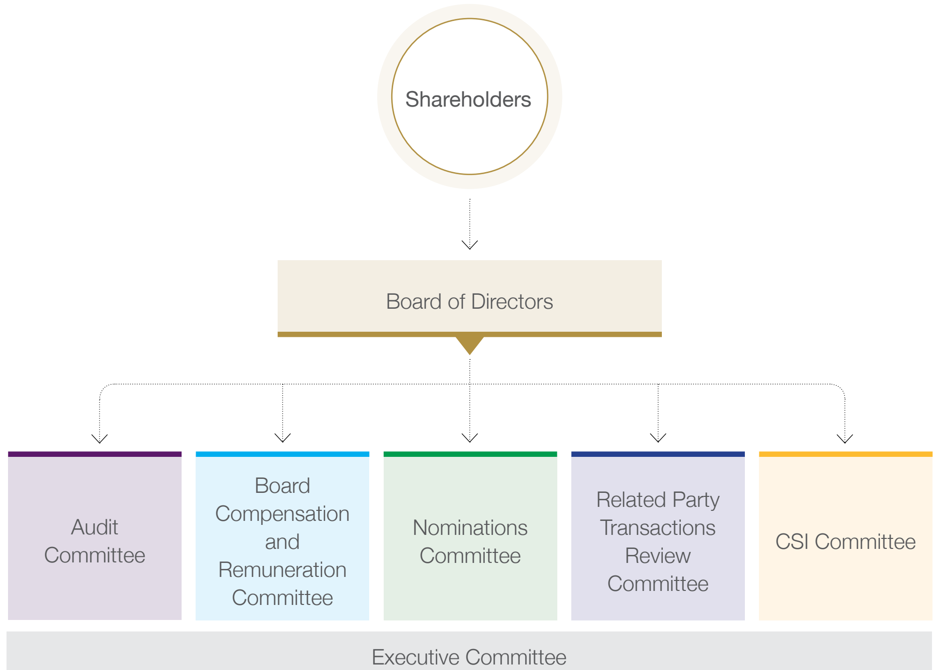
Standards and Principles		Governance Systems
Internal	External	
↗ Vision, Guiding Principles and "Must Do's" ↗ Articles of Association ↗ Standards of Business Conduct ↗ Group's Corporate Governance Framework and Practices ↗ Statement of Delegated Authorities ↗ Group's Stakeholder Engagement Guidance ↗ Terms of References for Board and Board Sub-Committees ↗ Comprehensive framework of policies, systems and procedures	↗ Companies Act No. 7 of 2007 ↗ Listing Rules of the Colombo Stock Exchange ↗ Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission of Sri Lanka (SEC) in 2017 ↗ Sri Lanka Accounting Standards ↗ Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC)	↗ Strategic planning ↗ Stakeholder engagement and management ↗ Risk management ↗ Regulatory compliance ↗ People management ↗ CSI governance ↗ Internal and external audit ↗ Related Party Transactions

Governance Structure

As the apex governing body, the Board of Directors serves as the custodian of the Company's corporate governance. The Company's clearly-defined governance structure promotes judicious empowerment and accountability and is presented graphically in the illustration. Board sub-committees have been set up with specific responsibilities to assist the Board in discharging its duties. The composition and key responsibilities of the Board sub-committees are listed below;

Policy Framework

A robust framework of policies provides guidance on all aspects of the Company's operations ensuring the consistent and fair treatment of all stakeholders. The Company's policies are cascaded from the BAT Group and refined to comply with local regulation and best practice. The policy framework is reviewed and revised on a regular basis given internal changes and external dynamics in the operating landscape. The table below provides an overview of the policies/guidelines that were added/revised during the year;



New/Revisions to policies/guidelines	
Anti-Bribery and Corruption Procedure (ABCP)	Following BAT's acquisition of Reynolds, the Group is expected to comply with the US Foreign and Corrupt Practices Act and other relevant US laws and regulations. Accordingly, all third parties engaged by CTC now undergo a scoring process to assess vulnerabilities for risk of bribery and corruption, following which necessary internal controls are adopted to ensure the Company will not hold any vicarious liability pertaining to the relevant risk.
Data Privacy Policy	Revised the Company's Data Privacy Policy to reflect the requirements of the General Data Protection Regulation (GDPR)
Sanctions Compliance Procedure	Implemented controls to vet suppliers and ensure that there are no linkages to any sanctioned entities
Contract Policy	Integrated the ABCP to the Contract Policy and revision of timelines and responsibilities, thereby increasing the stringency of the procedures following when entering contracts
Supplier Code of Conduct	Aligned with the Standards of Business Conduct
Standards of Business Conduct	Sign-off on SOBCs were extended to selective third party contract employees. Ensured 100% sign-off by all employees. Disclosure of potential conflicts of interest were also strengthened.

During the year, a policy roadshow was also carried out across the organisation to raise awareness among employees on the additions/revisions to the policy framework.

Corporate Governance

Board of Directors

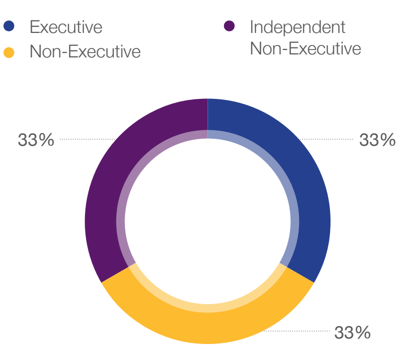
Board Composition

CTC's Board consists of four Non-Executive Directors (including the Chairman) and two Executive 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. 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 three Directors holding membership in professional accountancy bodies.

During the year, two Directors resigned from their positions, and the Chairman retired having completed his term of five years. The following Directors were appointed to the Board. Please refer to pages 70 to 71 for full profiles of the Board.

- Ms. Amun Mustafiz
- Mr. Anil Tittawella
- Mr. Yudhishthran Kanagasabai

Board Composition



Board Responsibility

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

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

Board Sub-Committees

Board sub-committees have been set up with specific responsibilities to assist the Board in discharging its duties. The composition and mandate of these sub-committees are given below;

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 member of a professional accounting body with adequate experience.	Support the Board and the Group's relevant Regional Audit Committee in ensuring the integrity of Financial Statements, management of business risks, internal control and compliance, and conduct of business in accordance with the SOBCs.
Board Compensation and Remuneration Committee	Consists of two Independent Non-Executive Directors. Chaired by the Chairman of the Committee.	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.

Sub-Committee	Composition	Mandate
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 Practice on Related Party Transactions.
CSI Committee	Chaired by the Chairman of the Committee	Ensure that the Company's CSI activities are in line with the Company's CSI strategy and are managed in a transparent and effective manner.

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 are provided to all newly appointed Directors. Non-Executive Directors undergo a 3-day induction programme, with comprehensive coverage on all operational aspects. These sessions consist of;

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

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

Board Evaluation

The Board conducts a critical evaluation of its activities on an annual basis facilitated by the Company Secretary. Performance is reviewed against the recommended checklist of the Institute of Chartered Accountants of Sri Lanka whilst the effectiveness of the 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 Committees in respect of its own performance.

Conflicts of Interest

Out of the Non-Executive Directors, two 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, the guidelines of the Code of Best Practice and the Standards of Business Conduct. The Board also has formal procedures for managing conflict of interest and Directors are required to provide advance notice of the same to the Company Secretary.

Activities of the Board in 2018

Areas of focus in 2018

Growth	Productivity	Winning Organisation	Sustainability
↗ Reviewing the implementation of the Company's strategy and plan and monitoring performance against short-term and long-term strategic priorities. ↗ Advising on product and segmentation strategy to enhance value across the portfolio and cater to evolving customer needs.	↗ Review the savings generated through IWS and other lean management initiatives. ↗ Providing guidance for further utilisation of Company assets to increase shareholder value	↗ Guidance on talent development proposition and succession planning. ↗ Reviewing and approving the Company's remuneration framework for management staff.	↗ Strengthening the Company's risk management framework.

Corporate Governance

Board Meetings

The Board meets on a quarterly basis with special meetings convened if and when the need arises. The Board agenda is set by the Chairman in consultation with the Managing Director and CEO and the Company Secretary. Other members of the Executive Board and senior management are invited to meetings from time to time, in particular when the Company's business strategy and annual budgets are under discussion. Board papers are circulated electronically at least 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	Related Party Transactions Committee	CSI Committee
Mr. Susantha Ratnayake (Retired 31 July 2018)	1/1		1/1			
Mr. Michael Koest	4/4	1/4		★ ❖		1/1
Ms. Emma Ridley (Resigned 14 December 2018)	3/3	3/3			3/3	
Mr. Dinesh Weerakkody (Resigned 15 July 2018)	0/1					
Mr. Yudhishtran Kanagasabai (Appointed 01 February 2018)	4/4	4/4 ❖	2/2	★	4/4 ❖	1/1
Mr. Anil Tittawella (Appointed 01 February 2018)	4/4	4/4	2/2 ❖	★	4/4	1/1 ❖
Mr. Javed Iqbal	3/4 ❖					
Mr. Kenneth Allen	3/4	3/4				
Ms. Amun Mustafiz (Appointed 14 December 2018)	1/1	1/1			1/1	

❖ *Chairman of the committee*

★ *The Nominations Committee did not meet during the year as there were no external appointments to the Board or its sub-committees.*

Compliance with all applicable laws and regulations are ensured through a comprehensive framework of policies and stringent internal controls. The Company's regulatory and statutory obligations are clearly identified, and defined compliance responsibilities are allocated to the relevant departments. A checklist of regulatory payments including excise, sales tax and EPF and 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 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.

Remuneration

The Board Compensation and Remuneration Committee is responsible for determining the framework and policy on terms of engagement (including remuneration) of the Chairman, Executive Directors and senior management. The Terms of Reference of the Committee comply with the guidelines prescribed by the Code of Best Practice, 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 93 of this Report. The aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Note 5 to the Financial Statements on page 117 of this Report.

Accountability and Audit

The Board is collectively responsible for presenting an accurate and balanced assessment of the Company's performance, financial position and prospects. CTC's Financial Statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer pages 86 to 88), the Statement of Director's Responsibilities for Financial Statements (refer page 89), Statement on Internal Controls (refer page 85).

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 Chairman works closely with the Company's Finance Director in discharging her responsibilities (Please refer to pages 90 to 91 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 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;
- 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 Messrs KPMG Chartered Accountants 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 in Note 7 to the Financial Statements on page 118.

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 evaluating and managing 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 64 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 85 of this Report for 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.

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. During the year the BAT Group and its subsidiaries strengthened its SOBC with increased focus on aspects such as anti-bribery, corruption and public contributions. During the year, there were no material violations of any provisions stipulated in the SOBC.

Whistleblowing

The Company's whistleblowing 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 designated officers. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Audit Committee. In 2018, the Company further strengthened it's whistleblowing policy and process, setting up a dedicated hotline managed by a third party. Employees are also able to communicate their concerns through an online portal.

Related Party Transactions

A dedicated Related Party Transactions Review Committee is in place at Board sub-committee level 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 24 of the Financial Statements on pages 132 to 135 of this Report.

Stakeholder Engagement

The Company strives to engage with its shareholders in a continuous and open manner. The Annual General Meeting is the main forum for engagement and is generally well attended. Notice of the AGM and relevant documents are sent to shareholders at least 15 working days

Corporate Governance

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 clarification, suggestion or complaint raised by shareholders.

(Please refer to a more comprehensive overview on how the Company engages with its stakeholders on pages 50 to 51 of this Report)

Environment, Society and Governance

The Company's Integrated Annual Report has been prepared in accordance with the IR Framework issued by the International Integrated Reporting Council (IIRC) and has been structured to capture CTC's material economic, social and environmental issues and impacts. Quantitative information has been provided wherever relevant together with the Company's approach towards managing these aspects. The following information has been presented in this Report:

- Corporate behaviour (Page 48);
- How we create value for our employees (Page 30);
- The Company's environmental impacts (Page 54); and
- Approach and progress in Corporate Social Investments (Page 58).

Sustainability and CSI

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

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

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

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

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

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Leadership and Governance on pages 74 to 80
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Leadership and Governance on pages 74 to 80
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Leadership and Governance on pages 74 to 80
7.10.3(a)	Disclosure relating to Directors	a. The Board shall make a determination annually as to the independence or non independence of each Non Executive Director	Compliant	Leadership and Governance on pages 74 to 80
		b. Names of independent Directors should be disclosed in the Annual Report		Section of Board of Directors on pages 68 to 71
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Section of Board of Directors on pages 68 to 71
7.10.3(d)	Disclosure relating to Directors	Upon appointment of a new Director to the Board, a brief resume of each Director should be provided to the CSE.	Compliant	Section of Board of Directors on pages 68 to 71
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing	Compliant	All Independent Directors meet the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Board Compensation and Remuneration Committee Report on page 93
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Board Compensation and Remuneration Committee Report on page 93
7.10.5(b)	Report of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Board Compensation and Remuneration Committee Report on page 93
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out; a. Names of Directors comprising the Remuneration Committee	Compliant	Leadership and Governance on pages 74 to 80
		b. Statement of remuneration policy	Compliant	Board Compensation and Remuneration Committee Report on page 93
		c. Aggregate remuneration paid to Executive & Non Executive Directors	Compliant	Note 5 to Financial Statements on page 117
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of the Board Audit Committee on pages 90 to 91

Corporate Governance

Corporate Governance Compliance Table

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Report of the Board Audit Committee on pages 90 to 91
		b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	Report of the Board Audit Committee on pages 90 to 91
		c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Report of the Board Audit Committee on pages 90 to 91
7.10.6(b)	Audit Committee Functions	Overseeing of the, (i) Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with Sri Lanka Accounting Standards.	Compliant	Report of the Board Audit Committee on pages 90 to 91
		(ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	Report of the Board Audit Committee on pages 90 to 91
		(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	Report of the Board Audit Committee on pages 90 to 91
		(iv) Assessment of the independence and performance of the external auditors.	Compliant	Report of the Board Audit Committee on pages 90 to 91
		(v) Make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.	Compliant	Report of the Board Audit Committee on pages 90 to 91
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Report of the Board Audit Committee on pages 90 to 91
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Report of the Board Audit Committee on pages 90 to 91
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	Report of the Board Audit Committee on pages 90 to 91
9.2.1	Related Party Transactions Review Committee	The Company shall have a Related Party Transactions Review Committee (RPTRC)	Compliant	Report of RPTRC on page 92

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
9.2.2	The composition of RPTRC	The committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors	Compliant	Report of RPTRC on page 92
		One Independent Non-Executive Director should be appointed as Chairman of the Committee	Compliant	Report of RPTRC on page 92
9.3.2.(c)	Disclosure in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee;	Compliant	Report of RPTRC on page 92
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/observations to the Board of Directors.	Compliant	Report of RPTRC on page 92
		The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Report of RPTRC on page 92
		The number of times the Committee has met during the Financial Year	Compliant	Report of RPTRC on page 92
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Report of RPTRC on page 92 and Note 24 on page 132

Assessment of Going Concern

The Financial Statements of CTC for the year ended 31 December 2018 have been prepared on the basis that the Company is a going concern.

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

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

Financial Indicators

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

Operating Indicators

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

Other Indicators

- Management pro-activeness and compliance with legal and statutory requirements.
- Low likelihood that legal cases filed against the Company will have significant adverse effect on its operations.
- Robust risk management process and migratory action plans.

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

Statement of Internal Controls

The Board of Directors has overall responsibility for the Company's system of internal 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 standards.

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, Compliance and BAT Internal Audit. The Internal Control Committee (ICC) is in place with the objective of supporting the Executive Committee in maintaining a sound control environment. Each function is represented in the ICC by a senior manager from the function and the Committee is chaired by an Executive Committee member on rotation. Scope of the ICC encompasses:

- review and validation of the Control Navigator self-assessment by functions;
- review of functional controls to identify any issues or weaknesses;
- review and 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 Management Committee as well as the Executive Committee and Audit Committee;
- a business plan for the year with detailed budget by function. In the business plan, targets are set for key performance indicators that are critical to achieve the plan. The performance is monitored against the targets on a regular basis;
- monthly Sales and Operations Planning process (SOP) to integrate and optimise key activities such as cycle plans, demand forecasts, supply plans, inventories and financial forecasts 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 section and in the Report of the Board Audit Committee. To ensure complete independence, both external and internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors also attend the Audit Committee meetings on invitation.

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

These best practices were complied with during the year 2018.

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

Michael Koest
Managing Director and CEO

Amun Mustafiz
Finance Director

14 February 2019

Report of the Directors

The Directors have great pleasure in presenting their Annual Report of the Company to the members for the year ended 31 December 2018, together with the audited Financial Statements of the Company.

Structure and Key Activities

British American Tobacco Plc (through British American Tobacco International Holdings BV)

84.13%

Ceylon Tobacco Company PLC

Principal Activity

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

Results for the year 2018 and appropriations

		Rs.000's	Rs.000's
Retained profit as at 1 January 2018			2,697,116
Current year's profit after charging all expenses and providing for all known liabilities			17,004,348
Dividends			
Dividends of Rs. 86.80 per share on the Issued Share Capital of 187,323,751 shares			
2017 Final dividend	- Rs. 11.80 per share paid on 08/05/2018		
First Interim dividend	- Rs. 18.00 per share paid on 05/06/2018		
Second Interim dividend	- Rs. 19.00 per share paid on 29/08/2018		
Third Interim dividend	- Rs. 19.00 per share paid on 29/11/2018		
Fourth Interim dividend	- Rs. 19.00 per share paid on 22/01/2019		
Net dividend		(14,530,498)	
Dividend Tax		(1,729,203)	
			(16,259,701)
Write back of unclaimed dividends			22,929
Re-measurement of Plan Asset			21,480
Balance carried forward to 2019			3,486,172

Interim dividends of Rs. 14,049 million have been paid and a final dividend of Rs. 2,954 proposed from the current years profit of Rs. 17,004 million.

Capital Expenditure

The Company capitalised a sum of Rs. 996 million in property plant and equipment in its modernisation programme. The movements in property, plant and equipment for the year are shown in Note 11 to the Financial Statements. Market value of the properties are disclosed under Note 11(a).

Donations

Included in the current years result is a sum of Rs. 32 million on Corporate Social Investments shown in Note 7 to the Financial Statements.

Contingent Liabilities and Commitments

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

The Board of Directors

The Board of Directors of the Company consisted of six members as at 31 December 2018. Profiles of the Directors are disclosed in pages 70 to 71 of the Annual Report.

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

Name	Change	Date
Mr. Dinesh Weerakkody (Independent Non-Executive Director)	Resigned	15 July 2018
Mr. Susantha Ratnayake (Chairman)	Retired	31 July 2018
Ms. Emma Ridley (Finance Director)	Resigned	14 December 2018
Ms. Amun Mustafiz (Finance Director)	Appointed	14 December 2018

Independence of Non-Executive Directors

In accordance with the Colombo Stock Exchange Rule No.7.10.4 the Directors determined that Mr. Susantha Ratnayake (retired w.e.f 31 July 2018), Mr. Dinesh Weerakkody (resigned w.e.f 15 July 2018), Mr. Yudhishtran Kanagasabai and Mr. Anil Tittawella, as Independent Directors based on declarations made by them according Appendix 7A of the Stock Exchange Rules.

Re-election of Directors

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

Ms. Amun Mustafiz who was appointed since the last Annual General Meeting, come up for re-election under the Company's Articles of Association.

Directors' Interest in Contracts and Related Party Transactions

Directors' interests in contracts and related party transactions are disclosed in Note 24 to the Financial Statements and have been declared at the meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

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

Results for the year 2018 and appropriation

	2018	2017	Growth
Turnover (Rs. million)	145,298	138,539	5%
Profit for the year (Rs. million)	17,004	14,586	16%
No. of shares	187,323,751	187,323,751	-
Earnings per share - Rs.	90.78	77.87	16%
Net assets per share - Rs.	28.61	24.40	17%
Market price per share - Rs.	1,415.00	1,004.50	41%
Price earnings ratio	15.58	12.89	21%
Dividends per share - Rs.	86.80	72.00	21%

Report of the Directors

Director's Shareholding

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

31 December	2018	2017
Mr. Susantha Ratnayake*	-	644
Total	-	644

Retired with effect from 31 July 2018

No Director other than those disclosed above has any shareholding.

Future Developments

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

Reserves

Total reserves as at 31 December 2018 comprise of revenue reserves amounting to Rs. 3,486 million. Movements are shown in the Statement of Changes in Equity in the Financial Statements.

Major Shareholdings

The 20 major shareholders and percentages are disclosed on page 139.

Employee Share Ownership Plans

The Company has no share ownership plans as at 31 December 2018. However, the BAT group through an International Executive Incentive Scheme ("IEIS") offers value of phantom shares in BAT Plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

Statutory Payments

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

Going Concern

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

Compliance with Regulations

The Board through the Legal and External Affairs function and the Finance function makes every effort to ensure that the business of the Company complies with all relevant laws and regulations.

Independent Auditors

The Auditors, Messrs. KPMG have expressed their willingness to continue in office. A resolution proposing their re-appointment and giving authority to the Directors to determine their remuneration will be submitted at the forthcoming Annual General Meeting.

Michael Koest
Managing Director and CEO

Amun Mustafiz
Finance Director

14 February 2019

Statement of Directors' Responsibilities for Financial Statements

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 Independent Auditor's Report on pages from 98 to 99.

The Companies Act No. 7 of 2007 requires the Directors to prepare and present Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for the financial year and place them before a general meeting of shareholders. The Financial Statements comprise of the Statement of Financial Position as at 31st December 2018, the Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended and Accounting Policies and Notes thereto.

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

- financial position of the Company as at 31st December 2018; and
- financial performance of the Company for the financial year ended 31st December 2018.

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

i. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained;

ii. All applicable Sri Lanka Accounting Standards (SLFRS/LKAS), as relevant, have been followed;

iii. Judgments and estimates have been made which are reasonable and prudent; and

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

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

Further, the Directors have a responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company, and to that Financial Statements presented comply with the requirements of the Companies Act No. 7 of 2007.

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

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

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

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

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the balance sheet date have been paid or, where relevant provided for, except as specified in Note 21 to the Financial Statements covering contingent liabilities.

Javed Iqbal
Chairman

Michael Koest
Managing Director and CEO

14 February 2019

Report of the Board Audit Committee

Composition

The Audit Committee ("the Committee") appointed by, and responsible to, the Board of Directors comprised the following members as at the end of the year. The Committee consisted of two Independent Non-Executive Directors and a Director of an overseas BAT Subsidiary, who is independent of executive functions of CTC.

Mr. Yudhishtran Kanagasabai – Chairman;

Mr. Anil Tittawella; and

Mr. Kenneth Allen

The Chairman of the Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka and the Maldives. The Board is satisfied that the Committee have an adequate blend of accounting, auditing, legal and commercial experience to carry out their duty. Brief profiles of the Committee members are given in pages 70 to 71 of this report.

The Company Secretary serves as the Secretary to the Committee.

Meetings

The Committee met four times during the year under review. The Managing Director and Chief Executive Officer, the Finance Director, the other members of the Executive Committee and external auditors too attend the meetings by invitation.

The attendance of the members at these meetings are given in page 78 of this report.

Terms of Reference

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

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

The Role of the Audit Committee

The role of the Audit Committee, which has specific terms of reference, is described in the CTC corporate governance section on pages from 74 to 80.

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

Key Responsibilities of the Audit Committee

Financial Reporting:

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

Internal Control:

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

The Committee has noted the findings from the compliance reviews, their root causes and management responses and status of implementing remediation actions including control navigator actions. This process assesses the adequacy and effectiveness of the internal controls and the processes for controlling business risks to ensure compliance with laws and regulations.

Internal Audit:

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

Executive management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable. The Committee noted the internal audit plan for 2018 and the findings of the internal audit reports for the year under were reviewed, and progress of the action plans were monitored.

External Audit:

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

The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be re-appointed for the financial year ending 31 December 2019 subject to the approval of shareholders at the next Annual General Meeting.

Oversight on Regulatory Compliance:

The Committee regularly monitored the compliance of the Company with applicable laws and regulations. Given the changing legal and regulatory landscape, the Committee received presentations and updates from management on the Company's readiness on proposed regulations.

Good Governance:

A Statement of Business Conduct (SOBC) is submitted each year by the management to the Group, to identify and report incidents of non-compliance and whistle blowing incidents. The Committee was satisfied that all whistle blowing incidents have been investigated, action taken where necessary and incidents of non-compliance have not adversely affected "Good Governance" policies and status of the Company.

Conclusion

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

Yudhishtran Kanagasabai
Chairman

Audit Committee

14 February 2019

Report of the Related Party Transactions Review Committee

The Related Party Transactions Review Committee ("the Committee") of Ceylon Tobacco Company PLC was established effective from 1 January 2016 in compliance with the Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules.

Composition

The Committee comprised with following members as at the end of the year with two Independent Directors, the Finance Director and is Chaired by an Independent Non-Executive Director. Ms. Amun Mustafiz appointed as the Finance Director and was appointed to the Board and the Committee as a member, with effect from 14 December 2018. Ms. Emma Ridley the former Finance Director, resigned from the Board and the Committee with effect from 14 December 2018.

Mr. Yudhishtran Kanagasabai – Chairman

Mr. Anil Tittawella

Ms. Amun Mustafiz

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

Meetings

The Committee held four Meetings in relation to the year 2018. The Managing Director and CEO, other members of the Executive Committee or any other manager (where relevant) of the Company will attend a meeting on the request of the Committee. The Finance Director or in her absence her nominee subject to approval of the Committee will act as the Secretary of the Committee.

Objective

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

Terms of Reference

The Committee in discharging its functions ensures that;

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

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

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

There were three Non-recurrent RPTs which required pre-approval by the Committee and Recurrent RPTs were reviewed on a quarterly basis for noting. There were no RPTs which met the disclosure thresholds as per the SEC Code and CSE listing rules. Please refer Note 24 to the Financial Statements on page 132 for further details.

Conclusion

The activities and the observations of the Committee have been communicated to the Board of Directors.

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

Yudhishtran Kanagasabai
Chairman

Related Party Transactions Review Committee

14 February 2019

Report of the Board Compensation and Remuneration Committee

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 the local managers and executives, so that the remuneration policy at all times remains both competitive and sustainable in terms of attracting and retaining talent.

The scope of the Committee includes the following:

- 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 Board Compensation and Remuneration Committee met on two occasions during the year 2018. During this meeting, The Board Compensation and Remuneration Committee reviewed below topics and approval was granted.

- Pay ranges review and the increments proposal for 2018.
- Short- and longer-term priorities in response to a dynamic and rapidly changing external environment through Short Term Incentive scheme (STI) and International Executives Incentive scheme (IEIS).
- Bonus payment for employee based on company's performance for 2017.
- Schemes below IEIS: Bonus hierarchy.

Anil Tittawella
Chairman

Board Compensation and Remuneration Committee

14 February 2019

Financial and Other Information

Financial Statements

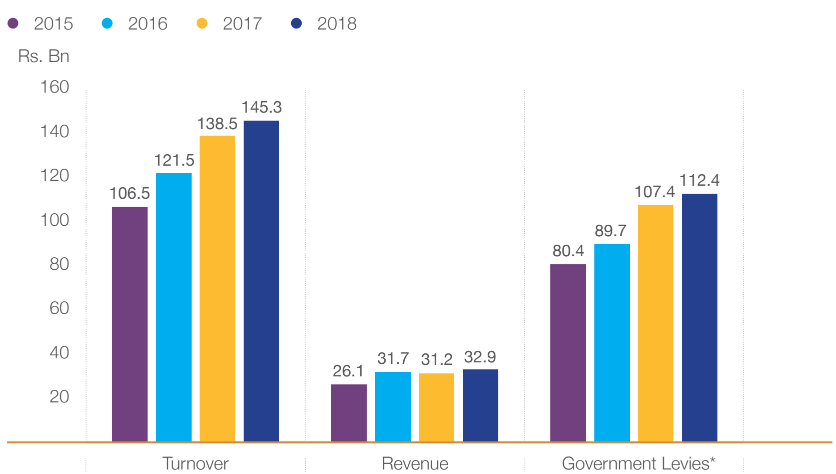
Supplementary Information

Finance Directors' Review

DOMESTIC VOLUMES	REVENUE	PAT	CASH FLOW FROM OPERATING ACTIVITIES	EPS
3.15 bn sticks	Rs.1.8 bn	Rs. 2.4 bn	Rs. 2.4 bn	90.78
0%	+6%	+17%	+10%	+16%

Overview

Despite significant challenges to the business, 2018 was a successful year for Ceylon Tobacco Company PLC and the results reported in this report are testament to our commitment to deliver long term sustainable shareholder returns. Focusing on the key pillars of our strategy – growth, productivity, sustainability, and a winning culture enabled us to deliver a 6% growth in revenue and a 17% growth in profit after tax with volumes remaining flat post the price increase in August. Management continually reviewed the assets, contracts and operations for opportunities to better utilise assets, investment for growth, reduction in costs and improved efficiency. These initiatives contributed significantly to maintaining sustainable profit growth. At the same time, CTC remained committed to create value for the local economy and government revenue.



**Excise and VAT only*

Revenue and Profit from Operations

Revenue growth was driven by a 5% increase in turnover while domestic volumes remained flat in comparison to 2017. Volumes reduced during the second half of the year, driven by the excise led price increase for the 83 mm format, in August. Dunhill and JPNC grew while the volume of key brands - JPGL, Bristol and Capstan declined. However, with the moderate excise-led price increase, the volumes started to stabilise well.

During the year CTC contributed Rs. 125 billion in total towards government revenue inclusive of taxes paid through our value chain, which is an increase of 6% compared to the previous year. This is in alignment with our commitment to contribute to the national exchequer.

Smuggled illicit cigarettes, with an estimated 510 million sticks entering the country, along with under-regulated and low taxed products such as 'beedi' with an estimated 4.8 billion sticks, remained a key threat to government revenue from the tobacco industry. This was mainly due to price pressured consumers shifting to these products in the face of the widening price gap between legally manufactured cigarettes and such cheaper smoking options. These were further fuelled by macroeconomic factors that impacted consumer spending power.

We continuously focused on a lean and agile cost base and internal operations. The raw material costs, especially wrapping materials, were impacted by the significant exchange rate devaluation. Despite this, raw material cost reduced by 3% due to 100% local leaf usage vs. partial importation in 2017. However, the recorded adverse weather conditions experienced in certain parts of the country significantly impacted agricultural crops, including tobacco cultivation and is a concern for the future sustainability.

Other operating expenses reduced by 27% driven by reduction in the constructive liability of CTC key business partners with regards to changes in tax regimes over the past few years. However, there has been increase in marketing investment to strengthen the value proposition of key brands and route to market infrastructure.

Investment for Growth

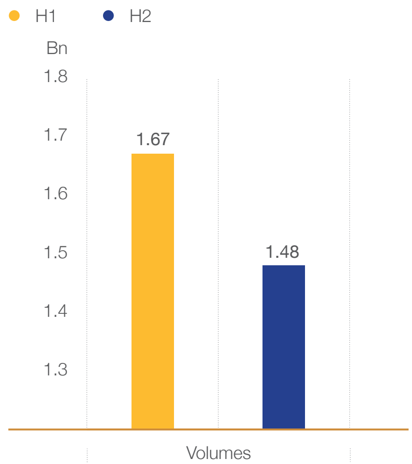
Despite the decline in volumes, the Company remained committed to invest in its brands to ensure sustainable long-term returns, establishing a portfolio that addresses the dynamic consumer needs and affordability within market in order to safeguard both industry and government revenue.

The Company's continual commitment to product quality and driving value through a more premium product mix resulted in a double

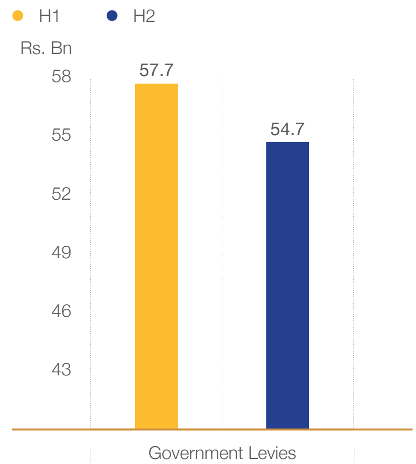
Finance Directors' Review

CTC Revenue

Volumes



Government Levies



digit growth in Dunhill during 2018. The main stream brand JPGL retained its position as the market leader and the most valuable brand in our portfolio although its volume declined slightly as a result of the price increase during full year. Focus has been on strengthening value proposition of John Player Navy Cut to cater towards an increasing need for a strong value-for-money offer.

CTC continues to improve the trade distribution model with continued focus on the flagship loyalty programme for our valued trade partners - “Abhisheka” and the creation of a passive distribution platform with the key objective of retaining the volume base and supporting our trade partners to enhance services and convenience to consumers. Investments were also made to tackle the challenges in the external environment, including consumer affordability, regulations, the rise in illicit products and developing our teams to deal with the continually challenging external environment.

In 2018, significant focus was placed on capital investment for long term sustainability. CTC invested Rs. 996 million to upgrade the factory footprint, replace obsolete machines, enhance efficiency and capability and improve product quality.

CTC’s flagship Corporate Social Investment initiative, the Sustainable Agricultural Development Programme (SADP) continued to focus on alleviating poverty and empowering the livelihoods of families in rural Sri Lanka. The total number of families supported by the Company as at 31 December 2018 stood at 19,664, comprising of 76,396 beneficiaries in 16 districts.

Cashflow and Liquidity

The Company had yet another strong year and delivered improved cash flow results with no debt funding at the end of the year. Higher profit and effective working capital management ensured a 28% increase in net cash generated from operating activities. Distributor credit exposure remained fully covered through bank guarantees and distributor financing scheme.

Distributions and Returns to Shareholders/Creating Value for Shareholders

Profit before tax grew 12% to Rs. 27.5 billion, driven by revenue growth, productivity and cost management initiatives helping to increase operating margins. Despite significant challenges presented by both the regulatory and competitive environment, the Company continued to generate sustainable value to its shareholders in 2018.

Year-on-year, both dividends per share and earnings per share grew by 17%. Additionally, when measured on a five years’ annualised basis, both dividend per share and earnings per share growth ranks higher among the top 20 listed companies in the country.

The Company’s share price closed the year at Rs. 1,415 from Rs. 1,004 in the previous year. CTC successfully defended its position as the most valuable entity listed on the Colombo Stock Exchange as at 31 December 2018.

	2018	2017
Earnings per share	90.78	77.87
Dividend per share*	90.77	77.80
Net Assets per share	28.61	24.39
Share Price	1,415.00	1,004.50
Dividend pay-out	99.99%	99.90%

**Includes interim and proposed dividend*

Amun Mustafiz

Amun Mustafiz
Finance Director

14 February 2019

Financial Calendar

2018	
First Quarter Results 2018	May 2018
Second Quarter Results 2018	August 2018
Third Quarter Results 2018	November 2018
Fourth Quarter Results 2018	February 2019
Annual Report 2018	April 2019
88th Annual General Meeting	May 2019

2019	
First Quarter Results 2019	May 2019
Second Quarter Results 2019	August 2019
Third Quarter Results 2019	November 2019
Fourth Quarter Results 2019	February 2020
Annual Report 2019	April 2020
89th Annual General Meeting	May 2020

Independent Auditor's Report

KPMG
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TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Financial Statements of Ceylon Tobacco Company PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies set out on pages 100 to 135 of this annual report.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards. (SLFRS/LKAS).

Basis for Opinion

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

Key Audit Matters

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

1. Revenue Recognition

As described in Note 2.22 (accounting policies) and Note 04 (Revenue), the company recorded revenue of 32.9Bn for year ended 31 December 2018 (2017: 31.2Bn)

Key audit matter

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

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

We focused on whether transactions have been recorded in the period in which the Company becomes entitled to record revenue, and also considering the transition impact of SLFRS 15.

Our audit procedures included,

- Identifying and evaluating the design and implementation and operating effectiveness of controls relating to revenue recognition.
- Performing a fraud risk assessment through inquiry of management regarding any actual or suspected override of controls in relation to revenue recognition.
- Reviewing report on General IT Controls tested centrally at group level and Application Controls tested by local IT specialist and consider impact at the end market level.
- Testing design and implementation and operating effectiveness of controls over journal entries and post-closing adjustments.
- Through inquiry and observation assessing the accounting for significant transactions that are outside of the normal course of business, or are otherwise unusual
- Testing that amounts have been recognised in the correct period for cut-off and evaluate whether there are any significant amount of returns after the year end.
- Test the quantification of adjustments arising from management's revenue recognition assessment for compliance with SLFRS 15 during the year and disclosures for its first time adoption.

Other Information

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

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

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

KPMG

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the Financial Statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

The engagement partner on the audit resulting in this independent auditor's report's Membership number is 1798.

KPMG

Colombo, Sri Lanka

14 February 2019

Statement of Profit or Loss and Other Comprehensive Income

(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December 2018	2017 (Restated)
Turnover	4	145,298,290	138,538,566
Government levies	4	(112,367,760)	(107,387,298)
Revenue		32,930,530	31,151,268
Raw materials used		(2,591,515)	(2,675,614)
Employee benefit expenses	5	(1,453,971)	(1,293,407)
Depreciation expenses	11	(172,271)	(236,512)
Amortisation expenses	12	-	(405)
Other operating expenses		(2,889,766)	(3,966,847)
Other operating income	6	80,958	87,675
Operating profit		25,903,965	23,066,158
Finance income	8	1,572,848	1,504,465
Profit before income tax		27,476,813	24,570,623
Income tax expenses	9	(10,472,465)	(9,984,159)
Profit for the year		17,004,348	14,586,464
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	13	21,480	(26,458)
Total other comprehensive income for the year		21,480	(26,458)
Total comprehensive income		17,025,828	14,560,006
Earnings per share			
- Basic (Rs)	10	90.78	77.87
- Diluted (Rs)		90.78	77.87

The Notes on pages 104 to 135 form an integral part of these Financial Statements.

Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands)	Note	As at 31 December 2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,081,991	2,258,007
Intangible assets	12	-	-
Employee benefit plan asset	13(b)	275,588	673,062
Other receivables	15	122,292	125,766
		3,479,871	3,056,835
Current assets			
Inventories	14	2,334,119	2,589,207
Trade and other receivables	15	2,241,962	1,747,103
Assets held for Sale	11(b)	279	279
Cash and cash equivalents	16	20,152,563	17,423,870
		24,728,923	21,760,459
Total assets		28,208,794	24,817,294
EQUITY AND LIABILITIES			
Equity			
Stated capital	17	1,873,238	1,873,238
Retained earnings		3,486,172	2,697,116
		5,359,410	4,570,354
Non-current liabilities			
Unfunded retirement benefit obligation	13(a)	200	518
Deferred tax liabilities	18	562,005	507,200
		562,205	507,718
Current liabilities			
Trade and other payables	19	12,638,097	12,354,715
Income tax liabilities		5,550,111	3,896,366
Dividend payable	20 (a)	3,813,823	3,278,165
Unclaimed dividends	20 (b)	285,148	209,976
		22,287,179	19,739,222
Total liabilities		22,849,384	20,246,940
Total equity and liabilities		28,208,794	24,817,294

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

Amun Mustafiz

Amun Mustafiz
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 14 February 2019.

Michael Koest
Managing Director and CEO

Amun Mustafiz

Amun Mustafiz
Finance Director

14 February 2019

The Notes on pages 104 to 135 form an integral part of these Financial Statements.

Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2017		1,873,238	1,611,648	3,484,886
Profit for the year		-	14,586,464	14,586,464
Other comprehensive income		-	(26,458)	(26,458)
Total comprehensive income for the year		-	14,560,006	14,560,006
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	12,773	12,773
Dividends	20 (c)	-	(13,487,311)	(13,487,311)
Total transactions with shareholders		-	(13,474,538)	(13,474,538)
Balance at 31 December 2017		1,873,238	2,697,116	4,570,354
Balance at 1 January 2018		1,873,238	2,697,116	4,570,354
Profit for the year		-	17,004,348	17,004,348
Other comprehensive income		-	21,480	21,480
Total comprehensive income for the year		-	17,025,828	17,025,828
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	22,929	22,929
Dividends	20 (c)	-	(16,259,701)	(16,259,701)
Total transactions with shareholders		-	(16,236,772)	(16,236,772)
Balance at 31 December 2018		1,873,238	3,486,172	5,359,410

The Notes on pages 104 to 135 form an integral part of these Financial Statements.

Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December 2018	2017
Cash flows from operating activities			
Cash generated from operations	23	26,106,699	23,738,553
Interest received		1,572,848	1,504,465
Surplus Paid by plan asset		450,000	-
Gratuity Paid - Unfunded Scheme		(318)	(858)
Taxes paid		(8,778,273)	(10,121,196)
Net cash generated from operating activities		19,350,956	15,120,964
Cash flows from investing activities			
Purchases of property, plant and equipment		(996,321)	(225,548)
Net cash used in investing activities		(996,321)	(225,548)
Cash flows from financing activities			
Dividends paid	20(a)	(15,623,714)	(12,507,041)
Unclaimed dividends paid	20 (b)	(2,228)	(14,829)
Net cash used in financing activities		(15,625,942)	(12,521,870)
Increase in cash and cash equivalents		2,728,693	2,373,546
Movement in cash and cash equivalents			
At beginning of year		17,423,870	15,050,324
Increase		2,728,693	2,373,546
At end of year	16	20,152,563	17,423,870

The Notes on pages 104 to 135 form an integral part of these Financial Statements.

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

1 GENERAL INFORMATION

Company

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

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

2 BASIS OF PREPARATION & OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

They were authorised for issue by the Company's Board of Directors on 14 February 2019.

2.2 Presentation of Functional Currency

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

2.3 Going concern

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

2.4 Summary of significant accounting policies

Except for the changes below, the Company has consistently applied the accounting policies to all periods presented in these Financial Statements.

Certain comparative amounts in the Statements of Profit or Loss and Other Comprehensive Income have been restated, reclassified or re-presented as a result of changes in accounting policies.

Changes in significant accounting policies

The Company has initially applied SLFRS 15 and SLFRS 09 from 01 January 2018.The effect of initially applying these standards is mainly attributed to the following;

- The classification of payments to customers between revenue and operating costs (includes payments, discounts and services to indirect customers and consumers); and
- An increase in impairment losses recognised on financial assets.

A. SLFRS 15 Revenue from Contracts with customers

SLFRS 15 establishes a comprehensive framework for determining how much and when revenue is recognised. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has revised prior periods, as permitted by the Standard, to ensure comparability of the income statement across prior periods. This Standard has changed the way the Company accounts for consideration payable to customers, and requires certain payments to indirect customers, previously shown as marketing expenses, to be shown as deductions from revenue.

The following table summarises the impacts of adopting SLFRS 15 on the comparative figures as presented in the statement of profit or loss and other comprehensive income for each of the line items affected.

	As previously reported (Rs. 000)	Effect of change in accounting policy (Rs. 000)	Restated amount (Rs. 000)
Total Turnover	139,040,599	502,033	138,538,566
Other Operating expenses	4,468,880	502,033	3,966,847

There was no impact on the comparative figures presented in the statement of financial position, statement of changes in equity and statement of cash flows. Further, the change in accounting policy has no impact on the reported amount of accumulated profits as at 1 January 2017.

B. SLFRS 09 Financial Instruments

SLFRS 09 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 Financial Instruments: Recognition and measurement.

As a result of the adoption of SLFRS 09, the Company has adopted consequential amendments to SLFRS 07 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The Company has adopted SLFRS 09 with no revision for prior periods, as permitted by the standard. A simplified "lifetime expected loss model" has been used for balances arising as a result of revenue recognition, as permitted by the standard, by applying a standard rate of provision on initial recognition of trade debtors based upon the Company's historical experience of credit loss modified by expectation of the future, and increasing this provision to take account of overdue receivables.

The Cumulative impact of adopting this standard of Rs. 800,000 has not been recognised as a revision of opening reserves in 2018 due to it is being considered immaterial.

Classification and measurement of financial assets and financial liabilities

SLFRS 09 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under SLFRS 09 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 09 eliminates the previous LKAS 39 categories of held to maturity, loans and receivable and available for sale.

Trade and other receivable and cash and cash equivalents which were earlier classified as loans and receivable under LKAS 39, are classified as amortised cost under SLFRS 09.

SLFRS 09 largely retains the existing requirements in LKAS 39 for the classification and measurement of financial liabilities and the adoption of the standard has not had a significant effect on the Company's accounting policies related to financial liabilities.

2.5 Foreign currency transactions, translation and balances

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

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

2.6 Significant accounting judgements, estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes:

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

2.7 Segmental reporting

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

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

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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

2.8 Property, plant and equipment

Basis of recognition

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

Basis of measurement

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

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

Depreciation and Derecognition

Lands are 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:

Free hold buildings	40 Years
Leasehold buildings	Over the lease period
Building improvements / upgrade	10 Years
Plant and machinery [Note 11.c]	20 Years
Furniture, fittings & office equipment	5 Years
IT equipment & household equipment	3 Years
Motor vehicles	4 Years
Lab equipment & canteen equipment	10 Years
IT infrastructure	5 Years

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

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

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

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

2.9 Intangible assets

Basis of recognition and measurement

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

Subsequent measurement

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

Amortisation

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

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

Computer Software	3 Years

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

2.10 Financial Instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

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

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

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

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

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

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

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

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 January 2018

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

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

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

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

Financial Assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018

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

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

- Contingent events that would change the amount or timing of cash flows;

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- Terms that may adjust the contractual coupon rate, including variable-rate features;
- Prepayment and extension features; and
- Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – subsequent measurement, gain and losses: policy applicable from 1 January 2018

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

Financial assets – Policy applicable prior 1 January 2018

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

a. Financial assets at fair value through profit or loss

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

b. Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. They were included in current assets, except for maturities greater than 12 months after the end of the reporting period. These were classified as non-current assets. The Company's loans and receivables comprised 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

c. Available-for-sale financial assets

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

d. Held to maturity

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

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

Derecognition

Financial assets

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

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

Financial liabilities

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

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

2.11 Offsetting financial instruments

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

2.12 Impairment of financial assets

Policy applicable from 01 January 2018

The Company uses simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

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

Credit-impaired financial assets

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

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

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

Policy applicable before 01 January 2018

The Company had assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had 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 was 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 was reduced and the amount of the loss was recognised in the statement of profit or loss.

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

2.13 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

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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.

2.14 Inventories

Inventories are stated at the lower of cost and 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.

2.15 Trade receivables

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

Impairment testing of trade receivables is described in Note 2.12.

2.16 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.

2.17 Stated capital

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

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

2.18 Trade payables

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

2.19 Income tax

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

Current tax

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

Deferred tax

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

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

2.20 Employee benefits

a. Defined contribution plan

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

Employees' Provident Fund

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

Employees' Trust Fund

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

b. Defined benefit plan

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

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

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

c. Short term employee benefits

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

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

d. Share based payments

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

2.21 Provisions

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

2.22 Revenue recognition

Sale of goods

Policy applicable from 1 January 2018

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes collected on behalf of third parties, rebates, discounts and certain marketing expenses which are not distinctive from sales or fair value of the goods or services cannot be reasonably estimated or excess value of fair value of such product or services. The Company considers sales and delivery of products as one performance obligation and recognises revenue when it transfers control to a customer.

Disaggregation of revenue

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

Policy applicable prior 1 January 2018

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

Incentives paid to indirect customers were treated as a marketing spend rather than a reduction in revenue.

2.23 Leases

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

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

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

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2.24 Dividend distribution

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

2.25 Fair Value estimation

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

2.26 Comparative information

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

2.27 New Accounting Standards issued but not yet effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standard which will become applicable for the financial periods beginning on or after 1 January 2019.

SLFRS 16 Leases

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

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

The standard is effective for annual periods beginning on or after 1 January 2019.

Transition

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

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

The Company has assessed the potential impact on its Financial Statements. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of depots and vehicles. In addition, the nature of expenses related to those leases will now change as SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

The company plans to adopt SLFRS 16 in its Financial Statements for the year ending 31 December 2019, using modified retrospective approach with optional practical expedients. As a result, the company will not restate the comparative information and there is no impact to the opening balance of retained earnings at the date of initial application.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), Euro (EUR) and the Great Britain Pound (GBP). 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 exchange rates were applied during the year:

Closing exchange rates	Year ended 31 December	
	2018	2017
US Dollar (USD)	182.90	153.50
Great Britain Pound (GBP)	232.94	207.65
Euro (EUR)	209.08	184.32

Average exchange rates	Year ended 31 December	
	2018	2017
US Dollar (USD)	162.52	152.56
Great Britain Pound (GBP)	216.72	196.64
Euro (EUR)	191.72	172.38

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 assets or liabilities held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result in Rs. 57.5 Million impact on pre-tax profit.

(ii) Price risk

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

Equity price risk

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

Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

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(all amounts in Sri Lanka Rupees thousands)

3.1 Financial risk factors (Contd.)

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge a contractual obligation. Credit risk mainly arises from trade debtors, advances and cash and cash equivalents. Group treasury guidelines are followed for managing cash and cash equivalents while short term investment decisions are taken after proper review by treasury committee ensuring compliance with group guidelines. The Company sales are on an order to order basis with guarantees equivalent to a day's sales, being obtained from all distributors. No credit limits were exceeded during the reporting period and management does not expect any losses from non performance by these counterparties. The maximum exposure to credit risk at the reporting date in terms of carrying value of assets are as follows:

	As at 31 December	
	2018	2017
Trade receivables [Note 15]	1,992,168	1,595,473
Receivables from related parties [Note 24(iii)]	110,986	32,704
Staff loans [Note 15]	226,934	178,952
Advances to farmers [Note 15]	89,943	54,392
	2,420,031	1,861,521
Provision [Note 15]	(57,886)	(43,111)
Cash and cash equivalents [Note 16]	20,152,563	17,423,870
	22,514,708	19,242,280

The following table provides information about the exposure to credit risk on trade receivables.

Aging Category	Gross Receivable	% Provision	Total Provision	Net Receivable
Not Due	1,689,245	0.05%	845	1,688,400
1 - 30 Days	183,834	0.06%	110	183,724
31 - 60 Days	75,135	0.07%	53	75,082
61 - 90 Days	12,269	0.07%	9	12,260
91 - 120 Days	15,287	0.08%	12	15,275
121 - 180 Days	1,800	0.08%	1	1,799
181 - 360 Days	14,597	0.09%	13	14,584
> 360 Days	-	0.10%	-	-
	1,992,167		1,043	1,991,124

Credit quality of financial assets

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

Cash at bank and short- term bank deposits

Cash at bank	Rating	As at 31 December 2018 Rs.	2017 Rs.
	AAA (lka)	16,554,150	10,176,267
	AA+ (lka)	91,421	86,553
	AA (lka)	44,580	16,064
	A-	71,013	78,776
	AA- (lka)	3,391,199	7,066,007
Total cash at bank and the short term deposits		20,152,363	17,423,667

(c) Liquidity risk

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

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

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

At 31 December 2017	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables	8,837,153	432,292	-

At 31 December 2018	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables	9,043,790	296,131	-

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 2018, the Company's strategy, which was unchanged from 2017, was to be fully equity funded and have no external borrowings.

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3.3 Analysis of financial instruments by measurement basis

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

As at 31 December 2017	Classification as per LKAS 39	Classification as per SLFRS 9	Original Amount (LKAS 39)	Revised Carrying Value (SLFRS 9)
Assets as per statement of financial position				
Trade and other receivables excluding pre-payments	Loans and Receivables	Financial Assets at Amortised Cost	1,818,410	1,818,410
Cash and cash equivalents	Loans and Receivables	Financial Assets at Amortised Cost	17,423,870	17,423,870
Total			19,242,280	19,242,280

As at 31 December 2017	Classification as per LKAS 39	Classification as per SLFRS 9	Original Amount (LKAS 39)	Revised Carrying Value (SLFRS 9)
Liabilities as per statement of financial position				
Trade and other payables excluding non financial liabilities	Financial Liabilities at Amortised Cost	Financial Liabilities at Amortised Cost	9,331,738	9,331,738
Total			9,331,738	9,331,738

As at 31 December 2018	Assets at Amortised Cost	Assets at fair value through profit or loss	Assets at fair value through Other Comprehensive Income	Total
Assets as per statement of financial position				
Trade and other receivables excluding pre-payments	2,297,451	-	-	2,297,451
Cash and cash equivalents	20,152,563	-	-	20,152,563
Total	22,450,014	-	-	22,450,014

As at 31 December 2018	Liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables excluding non financial liabilities	-	9,339,920	9,339,920
Total	-	9,339,920	9,339,920

4 REVENUE

	Year ended 31 December	
	2018	2017 (Restated)
Local turnover	145,110,140	138,309,659
Export turnover	188,150	228,907
Total turnover	145,298,290	138,538,566
Government levies		
Excise special provision tax	(92,935,428)	(88,881,942)
Value added tax	(19,410,249)	(18,485,990)
Tobacco tax	(22,083)	(19,366)
Total government levies	(112,367,760)	(107,387,298)
Revenue	32,930,530	31,151,268

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

The effect of initially applying SLFRS 15 on the Company's revenue from Contract with Customers is described in Note 2.4 (A). Due to the transition method chosen in applying SLFRS 15, comparative information have been restated to reflect the new requirements.

5 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2018	2017
Executive Directors' emoluments	146,174	108,874
Non- Executive Directors' remuneration	16,988	10,458
Salaries and wages	1,087,810	1,070,823
Defined contribution plans	78,280	75,676
Provision for voluntary separation scheme [(a) below]	155,765	74,825
Defined benefit obligations [Note 13]	(31,046)	(47,249)
	1,453,971	1,293,407

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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

6 OTHER OPERATING INCOME

	Year ended 31 December	
	2018	2017
Sundry sales / gains	35,321	48,219
Recharge income	45,637	39,456
	80,958	87,675

7 OPERATING PROFIT

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

	Year ended 31 December	
	2018	2017
Auditors' remuneration		
Audit fees	4,916	6,903
Audit related services	1,820	1,760
Non-audit fees	-	-
Legal fees	91,048	79,043
Donations	32,255	53,878
Depreciation and Amortisation	172,271	236,917
Technical and advisory fees	638,589	598,815
Write-offs	65	481
Provision for obsolete inventories	3,296	4,397
Provision for doubtful debts	14,775	22,253
Repairs and maintenance	230,686	222,389

8 FINANCE INCOME

	Year ended 31 December	
	2018	2017
Interest income		
Interest income from bank deposits	1,572,848	1,504,465
Finance income	1,572,848	1,504,465

9 INCOME TAX EXPENSES

Income tax has been provided on the taxable income of the Company at 40%, 28%, 12% (14% w.e.f 1 April 2018) and 10% (14% w.e.f 1 April 2018) on profits arising from domestic sales, interest income, export sales and leaf exports respectively.

	Year ended 31 December	
	2018	2017
Current tax on profit for the year	10,417,660	9,923,893
Deferred tax [Note 18]	54,805	60,266
	10,472,465	9,984,159

	Year ended 31 December			
	%	2018	%	2017
Profit before tax		27,476,813		24,570,623
Tax calculated at tax rate of 40%	40%	10,990,725	40%	9,828,249
Tax effects of:				-
Tax on expenses not deductible for tax purposes	4.77%	1,310,482	1.85%	455,771
Tax on expenses deductible for tax purposes	(8.21%)	(2,254,932)	(0.68%)	(166,076)
Tax effect on rate differentials	1.35%	371,385	(0.79%)	(194,051)
Tax effect from deferred taxation	0.20%	54,805	0.25%	60,266
Tax charge	38.11%	10,472,465	40.63%	9,984,159

10 EARNINGS PER SHARE

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

	Year ended 31 December	
	2018	2017
Profit attributable to shareholders (in thousands)	17,004,348	14,586,464
Weighted average number of ordinary shares outstanding	187,323,751	187,323,751
Basic earnings per share (Rs.)	90.78	77.87
Diluted earnings per share (Rs.)	90.78	77.87

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

11 PROPERTY, PLANT AND EQUIPMENT

	Freehold lands	Freehold Buildings	Capital work in progress	Building improvements /upgrade	Leasehold buildings	Machinery/ equipment	Motor vehicles	Total
Cost								
At 1 January 2017	95,936	335,977	673,736	164,020	27,911	3,953,138	9,294	5,260,012
Additions to asset classes	901	10,898	(475,993)	19,950	-	444,244	-	-
Additions to WIP	-	-	225,547	-	-	-	-	225,547
Write-offs	-	-	-	-	-	(80,233)	-	(80,233)
At 31 December 2017	96,837	346,875	423,290	183,970	27,911	4,317,149	9,294	5,405,326
Accumulated depreciation								
At 1 January 2017	-	215,038	-	82,085	27,682	2,657,870	8,365	2,991,040
Charge for the year	-	5,456	-	13,971	65	217,020	-	236,512
Write-offs	-	-	-	-	-	(80,233)	-	(80,233)
At 31 December 2017	-	220,494	-	96,056	27,747	2,794,657	8,365	3,147,319
Closing net book amount	96,837	126,381	423,290	87,914	164	1,522,492	929	2,258,007
Cost								
At 1 January 2018	96,837	346,875	423,290	183,970	27,911	4,317,149	9,294	5,405,326
Additions to asset classes	-	10,268	(344,974)	5,166	-	329,540	-	-
Addition to WIP	-	-	996,321	-	-	-	-	996,321
Write-offs	-	(215)	-	-	(488)	(8,462)	(651)	(9,815)
At 31 December 2018	96,837	356,928	1,074,637	189,136	27,423	4,638,227	8,643	6,391,831
Accumulated depreciation								
At 1 January 2018	-	220,494	-	96,056	27,747	2,794,657	8,365	3,147,319
Charge for the year	-	5,659	-	14,615	47	151,950	-	172,271
Write-offs	-	(215)	-	-	(488)	(8,462)	(585)	(9,750)
At 31 December 2018	-	225,938	-	110,671	27,306	2,938,145	7,780	3,309,840
Closing net book amount	96,837	130,990	1,074,637	78,465	117	1,700,082	863	3,081,991

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. 1,878,865,313 (2017: 1,831,036,846).

(a) Company Property

The freehold land and buildings were valued by professional valuer Sunil Fernando & Associates (Pvt) Ltd. The valuations carried out on 1 July 2017 have been considered to derive the market values of the respective properties as at 31 December 2018.

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

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

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

(c) During 2017, the Group has decided to change the expected useful life of Machinery and Equipment w.e.f. 1 January 2018. The Machinery and Equipment which initially had a useful life of 14 years, are now expected to remain in production for 20 years from the date of purchase. As a result, their expected useful life increased and its estimated residual value decreased. The effect of these changes on actual and expected depreciation expense, was as follows.

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

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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

12 INTANGIBLE ASSETS

Intangible assets comprise computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 2.9.

	As at 31 December	
	2018	2017
Cost		
At 1 January	63,425	112,565
Additions	-	-
Write-offs	-	(49,140)
At 31 December	63,425	63,425
Amortisation		
At 1 January	63,425	111,679
Amortisation during the year	-	405
Write-offs	-	(48,659)
At 31 December	63,425	63,425
Net book value	-	-

13 EMPLOYMENT BENEFITS

(a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 0.2 million (2017: Rs. 0.5 million) is not funded and has been provided for in the books of the Company.

	As at 31 December	
	2018	2017
Unfunded obligations	200	518

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 320 (2017 - 271) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy.

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

	As at 31 December	
	2018	2017
Net Defined benefit liability	395,570	466,175
Net defined benefit asset	(671,158)	(1,139,237)
Total employee benefits plan asset	(275,588)	(673,062)

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

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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

13 EMPLOYMENT BENEFITS (CONTD.)

	Present value of obligation	Fair value of plan assets	Total
Included in profit or loss:			
At 1 January 2018	466,175	(1,139,237)	(673,062)
Current service cost	35,587	-	35,587
Interest expense / (income)	39,758	(106,391)	(66,633)
	75,345	(106,391)	(31,046)
Included in OCI:			
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(4,696)	(4,696)
- Gain from change in financial assumptions	(56,870)	-	(56,870)
- Experience loss	40,086	-	40,086
	(16,784)	(4,696)	(21,480)
Other:			
Benefits paid	(129,166)	129,166	-
Benefits withdrawn by the employer	-	450,000	450,000
At 31 December 2018	395,570	(671,158)	(275,588)

The principal assumptions the Company used are as follows:

	As at 31 December	
	2018	2017
Discount rate per annum	11.70%	9.90%
Annual salary increment rate	10.25%	10.25%

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

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

	Impact on defined benefit obligation 2018		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(25,748)	29,726
Annual salary increment rate	1.00%	29,872	(26,298)

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

14 INVENTORIES

	As at 31 December	
	2018	2017
Raw materials	1,832,550	2,160,769
Work-in-progress	36,017	46,887
Finished goods	304,242	198,276
Consumables	244,125	262,792
Provision for obsolete and slow moving inventories	(82,815)	(79,517)
	2,334,119	2,589,207

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

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

15 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
Current		
Trade receivables	1,992,168	1,595,473
Receivable from related parties [Note 24 (iii)]	110,986	32,704
Advances to farmers	89,943	54,392
Staff loans	104,642	53,186
Other receivables	2,109	54,459
Less: provision for impairment of receivables	(57,886)	(43,111)
	2,241,962	1,747,103
Non-current		
Receivables (Staff loans)	122,292	125,766
Total trade and other receivables	2,364,254	1,872,869

(i) Trade receivables wholly consist of amounts receivable from distributors. No specific impairment indicators are noted as all receivables are less than 12 months.

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

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

	As at 31 December	
	2018	2017
Trade receivables	1,992,168	1,595,473
Receivables from related parties	110,986	32,704
Advances to farmers	89,943	54,392
Staff loans	226,934	178,952
Other receivables	2,109	54,459
Less: provision for impairment	(57,886)	(43,111)
	2,364,254	1,872,869

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

	As at 31 December	
	2018	2017
At 1 January	43,111	20,859
Provision for the period	16,898	28,096
Write-offs during the period	(1,971)	(4,526)
Reversals during the period	(152)	(1,318)
At 31 December	57,886	43,111

16 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2018	2017
Cash at bank and in hand	11,152,563	8,381,222
Short term investments	9,000,000	9,042,648
Cash and cash equivalents in the statement of cash flows	20,152,563	17,423,870

17 STATED CAPITAL

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

All issued ordinary shares are fully paid.

18 DEFERRED TAX LIABILITIES

Deferred tax is recognised in respect of all temporary differences under liability method using the effective tax rate.
The movement of deferred tax liability is as follows:

	As at 31 December	
	2018	2017
At beginning of the year	507,200	446,934
Charge for the year	54,805	60,266
At end of the year	562,005	507,200

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

18 DEFERRED TAX LIABILITIES (CONTD.)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same taxation 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 2017	(447,484)	550	(446,934)
Recognised in profit or loss	(59,923)	(343)	(60,266)
At 31 December 2017	(507,407)	207	(507,200)
Balance as at 1 January 2018	(507,407)	207	(507,200)
Recognised in profit or loss	(54,678)	(127)	(54,805)
At 31 December 2018	(562,085)	80	(562,005)

19 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
Trade payables	722,886	480,417
Payable to related parties [Note 24 (iii)]	636,811	942,801
Accrued expenses	3,298,176	3,022,981
Other payables including government levies	7,980,224	7,908,516
	12,638,097	12,354,715

20 DIVIDENDS PAYABLE

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

	As at 31 December	
	2018	2017
At 1 January	3,278,165	2,341,548
Dividends declared [Note (c)]	16,259,701	13,487,311
Dividends paid	(15,623,714)	(12,507,041)
Transfers to unclaimed dividends [Note (b)]	(100,329)	(43,653)
At 31 December	3,813,823	3,278,165

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

	As at 31 December	
	2018	2017
At 1 January	209,976	193,926
Transfers	100,329	43,652
Payments	(2,228)	(14,829)
Write back	(22,929)	(12,773)
At 31 December	285,148	209,976

(c) Dividends declared during the year is as follows:

	2018		2017	
	per share	Rs.	per share	Rs.
Final dividend - 2016/2017	11.80	2,210,420	6.00	1,123,943
First interim - 2017/2018	18.00	3,371,828	15.00	2,809,856
Second interim - 2017/2018	19.00	3,559,151	16.00	2,997,180
Third interim - 2017/2018	19.00	3,559,151	17.50	3,278,166
Fourth interim - 2017/2018	19.00	3,559,151	17.50	3,278,166
	86.80	16,259,701	72.00	13,487,311

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

21 CONTINGENT LIABILITIES

No provision has been made, in the Financial Statements of the Company in respect of the following:

(a) Rs. 500 million (2017: Rs. 500 million) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing Licence) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 (as amended).

(b) Shipping and Bank Guarantees have been issued amounting to Rs. 26.9 million (2017: Rs. 34.2 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.

22 COMMITMENTS

Capital commitments

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

Financial commitments

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

Operating lease commitments - Company as lessee

The Company leases motor vehicles and lands 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 profit or loss 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	
	2018	2017
Less than 1 year	135,727	37,665
More than 1 year and less than 5 years	185,458	154,411
More than 5 years	2,341	309
Total	323,526	192,385

Expenses relating to operating leases during the year

	Year ended 31 December	
	2018	2017
Minimum lease payments	69,481	146,055
Contingent rentals	-	-
Sub - leases	-	-
	69,481	146,055

23 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2018	2017
Profit before tax	27,476,813	24,570,623
Adjustments for:		
Depreciation [Note 11]	172,271	236,512
Amortisation of intangible assets [Note 12]	-	405
Write offs	65	481
Interest received [Note 8]	(1,572,848)	(1,504,465)
Net interest on retirement benefit obligations [Note 13]	(31,046)	(47,249)
Provision for obsolete inventories and doubtful debts	18,071	26,650
Changes in working capital:		
- inventories	251,791	(526,056)
- receivables	(506,159)	619,422
- trade and other payables	297,741	362,230
Cash generated from operations	26,106,699	23,738,553

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

24 RELATED PARTY TRANSACTIONS

Transactions with related parties

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

Non-recurrent related party transactions

Any non-recurrent related party transactions of which the aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2017 audited Financial Statements requires additional disclosures in the 2018 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with related party that exceeds the specified thresholds.

Recurrent related party transactions

Any recurrent related party transactions of which the aggregate value exceeds 10% of revenue of the Company as per 31 December 2017 audited financial Statements requires additional disclosures in the 2018 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with a related party that exceeds the specified thresholds.

The following transactions were carried out with related parties:

(i) Sale of goods/ services

	Year ended 31 December	
	2018	2017
British American Shared Services (GSD) Limited	60,813	35,529
BAT Sales and MKT Singapore	831	2,160
BAT Marketing (Singapore) Private Limited	34,063	174,400
British-American Tobacco (Singapore) Pte Ltd	4,166	-
British American Tobacco Asia-Pacific Region Ltd	2,586	-
British American Tobacco Myanmar Limited	951	-
Pakistan Tobacco Co Ltd	225	-
British American Tobacco ME DMCC	5,441	-
VINA-BAT JV HCMC Branch	1,529	-
British American Tobacco (Malaysia) Berhad	3,374	3,143
BAT (Holdings) Limited	22,103	4,747
BAT International	-	6,136
BAT AsPac Service Centre Sdn Bhd	666	2,342
BAT Investments LTD	58,051	19,233
British American Tobacco (GLP) Limited.	1,809	936
	196,608	248,626

(ii) Purchase of goods/services

	Year ended 31 December	
	2018	2017
BAT AsPac Service Centre Sdn Bhd	172,540	144,314
BAT Investments Limited	638,589	598,815
Benson & Hedges (Overseas) Limited	7,898	6,033
BAT Asia Pacific Region Limited	12,752	3,534
BAT (Holdings) Limited	254,903	166,049
British American Shared Services (GSD) Limited	597,144	515,962
Tobacco Importers & Manufacturers Sdn Berhad	-	964
BAT SAA Service (Private) Limited	70,557	31,400
BAT Australia Ltd	4,418	6,325
PT Bentoel Internasional Investama Tbk.	969	-
BAT Germany GMBH	867	186
BAT Souza Cruz S.A	6,083	-
BAT Switzerland S.A.	152	-
BAT Pecsi Dohanygyar KFT	588	-
British-American Tobacco Polska S.A.	254	-
British American Tobacco Kenya Ltd	84	-
British American Tobacco Mexico S.A. de C.V.	9,846	-
British-American Tobacco (Singapore) Pte Ltd	114,473	133,671
PT Bentoel Prima	2,109	-
BAT (GLP) Limited.	-	398,605
BAT Korea Manufacturing Limited	-	581
	1,894,226	2,006,439

Notes to the Financial Statements

(all amounts in Sri Lanka Rupees thousands)

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

	As at 31 December	
	2018	2017
Receivable from related parties [Note 15]		
BAT (Holdings) Limited	17,632	4,071
BAT International Ltd	-	6,519
BAT Investments LTD	51,352	3,779
BAT Marketing (Singapore) Private Limited	-	11,054
British American Tobacco Asia-Pacific Region Ltd	2,683	-
British-American Tobacco (Singapore) Pte Ltd	4,193	-
British American Tobacco (GLP) Limited	1,850	-
British American Tobacco ME DMCC	5,883	-
VINA-BAT JV HCMC Branch	1,562	-
BAT AsPac Service Centre Sdn Bhd	683	-
BAT Sales & Mkt Singapore Pte Ltd	-	2,160
British American Shared Services (GSD) Limited	24,909	-
PT Bentoel Prima	-	2
Pakistan Tobacco Company Limited	239	5,119
	110,986	32,704

	As at 31 December	
	2018	2017
Payable to related parties [Note 19]		
BAT Investments Limited	308,918	342,698
BAT ASPAC Service Centre Sdn Bhd	41,557	154,389
BAT (Holdings) Limited	70,635	50,011
Tobacco Importers & Manufacturers Sdn Berhad	-	35,501
BAT Singapore Private Limited	-	56,289
British American Shared Services (GSD) Limited	122,780	281,190
BAT Souza Cruz S.A	-	2,685
Benson & Hedges (Overseas) Limited	1,448	4,312
BAT Asia Pacific Region Limited	-	2,131
BAT (Germany) GmbH	1,121	191
BAT Australia Limited	550	7,687
Pakistan Tobacco Company	-	5,136
BAT Korea Manufacturing Limited	692	581
British-American Tobacco (Singapore) Pte Ltd	53,174	-
BAT Switzerland S.A.	160	-
British American Tobacco Mexico S.A. de C.V.	10,698	-
BAT Pecsi Dohanygyar KFT	629	-
British American Tobacco Kenya Ltd	84	-
British-American Tobacco Polska S.A.	271	-
PT Bentoel Prima	1,579	-
BAT SAA Service (Private) Ltd	22,515	-
	636,811	942,801

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

(iv) Key management compensation

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

	Year ended 31 December	
	2018	2017
Salaries and other short-term employee benefits	278,133	213,848
Share based payments	3,706	13,302

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

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

As at 31 December 2018, the fair value of the phantom shares granted was Rs.16.1 million (2017: Rs. 15 million).

25 EVENTS AFTER THE REPORTING PERIOD

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

Dividends:

The directors recommend a final dividend of Rs. 15.77 per share for 2018. The final dividend is subject to the approval of the shareholders at the Annual General Meeting to be held on 14 May 2019.

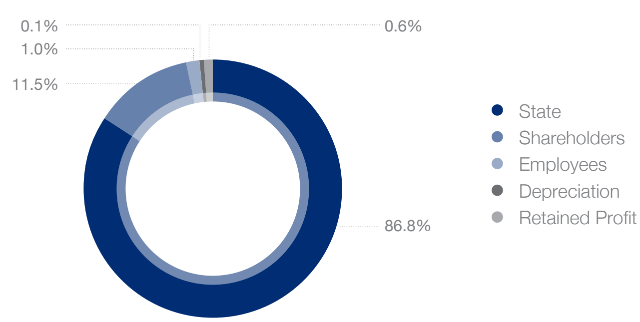
Once approved by the shareholders, the final dividend will be payable on 24 May 2019.

Statement of Value Added

(all amounts in Sri Lanka Rupees thousands)

	Year ended 31 December	
	2018	2017
Turnover	145,298,290	138,538,566
Supplied material and services	(5,481,281)	(6,642,461)
Net interest income	1,572,848	1,504,465
Other operating income	80,958	87,675
	141,470,815	133,488,245
State	122,840,225	117,371,457
Shareholders	16,259,701	13,487,311
Employees	1,453,971	1,293,407
Depreciation	172,271	236,917
Retained Profit	744,647	1,099,153
	141,470,815	133,488,245

Statement of Value Added



Shareholder Information

Ordinary Shareholding

Stated Capital - Rs. million	1,873
Number of shares representing the Entity's stated capital	187,323,751
Number of Shareholders as at 31 December 2018	3,270
Number of Shareholders as at 31 December 2017	3,389

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	2,324	476,485	0.25	30	8,270	0.01	2,354	484,755	0.26
1001-10,000	772	2,237,246	1.19	36	152,627	0.08	808	2,389,873	1.27
10,001-100,000	58	1,425,515	0.76	25	852,541	0.46	83	2,278,056	1.22
100,001-1,000,000	4	613,413	0.33	16	4,056,162	2.16	20	4,669,575	2.49
Over 1,000,000	-	-	-	5	177,501,492	94.76	5	177,501,492	94.76
Total	3,158	4,752,659	2.53	112	182,571,092	97.47	3,270	187,323,751	100.00

Computation of % of Public Shareholding

	No. of Shares As at 31 December	
	2018	2017
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors shareholding (including spouses & children)		
M Koest	-	-
E Ridley	-	-
S J Iqbal	-	-
Y Kanagasabai	-	-
A Tittawella	-	-
K Allen	-	-
A Mustafiz	-	-
	-	-
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors shareholding (including spouses & children)	-	-
Public Holding	29,732,820	29,732,820
	187,323,751	187,323,751
Public Holding as a % of Issued Share Capital	15.87%	15.87%
Number of shareholders holding the Public Holding	3,269	3,387
Market Capitalisation of Public Holding (Rs. million)	42,072	29,867

Shareholder Information

(all amounts in Sri Lanka Rupees thousands)

	No. of Shares	%	No. of Shareholders	%
Individuals	5,200,745	2.78	3,110	95.11
Institutions	182,123,006	97.22	160	4.89
	187,323,751	100.00	3,270	100.00

CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code **CTC,CM**

	2018	2017
No. of share transactions for the year	1,414	1,868
No. of shares traded	1,300,428	1,411,976
Price Movements (Rs.)		
Highest	1,500.00	1,030.00
Lowest	1,350.00	800.00
Closing Price	1,415.00	1,004.50
Market Capitalisation (Rs. million)	265,063	188,167

20 largest shareholders

		31 December 18		31 December 17	
		No. of Shares	%	No. of Shares	%
1	British American Tobacco International Holdings BV	157,590,931	84.13	157,590,931	84.13
2	Philip Morris Brand SARL	15,585,910	8.32	15,585,910	8.32
3	Pershing LLC S/A Averbach Grauson & Co.	1,936,731	1.03	1,987,794	1.06
4	SSBT-BMO Investments 11 (Ireland) Public Limited Company	1,295,275	0.69	1,206,504	0.64
5	Northen Trust Company S/A - Fundsmith Emerging Equities Trust PLC	1,092,645	0.58	-	-
6	RBC Investor Services Bank-COELI SICAV	878,756	0.47	529,098	0.28
7	SSBT-AL MEHWAR COMMERCIAL INVESTMENTS L.L.C	405,258	0.22	-	-
8	HSBC INTL NOM LTD-BBH-Matthews Emerging Asia Fund	361,292	0.19	359,928	0.19
9	HSBC INTL NOM LTD-JPMCB-Long Term Economic Investment Fund	339,568	0.18	339,568	0.18
10	Mrs Jasbinderjit Kaur Piara Singh	312,063	0.17	312,063	0.17
11	HSBC INTL NOM Ltd - SSBT-BMO-LGM Frontier Markets Equity Fund	244,387	0.13	160,730	0.09
12	Miss Neesha Harnam	225,821	0.12	225,821	0.12
13	HSBC INTL NOM LTD-SSBT Frank Russel Trust Company	200,124	0.11	200,124	0.11
14	HSBC INTL NOM Ltd - SSBT-Deutsche Bank AG Singapore A/C 01	175,600	0.09	195,600	0.10
15	Mr Prabhash Subasinghe	171,038	0.09	-	-
16	AYENKA HOLDINGS PRIVATE LIMITED	164,367	0.09	-	-
17	PICTET and CIE (Europe) SA S/A Lloyd George Indian Ocean Master Fund	160,000	0.09	187,500	0.10
18	Harnam Holdings SDN BHD	150,000	0.08	210,102	0.11
19	Mellon Bank N.A-Eaton Vance Trust Co.Collective Inv.	148,901	0.08	148,901	0.08
20	Bank of Ceylon No 1 Account	143,177	0.08	143,178	0.08
	HSBC INTL NOM LTD-State Street London			1,092,645	0.58
	Nortthen Trust Company S/A - Coupland Cardiff Funds PLC			296,285	0.16
	HSBC INTL NOM LTD-JPMCB-Coronation Global Frontiers Master fund			203,352	0.11
	HSBC INTL NOM LTD-JPMCB-New Emerging Markets			150,615	0.08
	Sub Total	181,581,844	96.93	181,126,649	96.69
	Others	5,741,907	3.07	6,197,102	3.31
	Total Shares	187,323,751	100.00	187,323,751	100.00

Notes

Notice of Meeting

NOTICE IS HEREBY given that the Eighty Eighth 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 Tuesday, 14 May 2019 at 10.30 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 2018 and the Report of the Auditors thereon.

(ii) To declare a Final Dividend.

(iii) To re-elect the following Directors.

- To re-elect Mr. Anil Tittawella Who comes up for retirement by rotation
- To re-elect Mr. Yudhishtran Kanagasabai comes up for retirement by rotation
- To re-elect Ms. Amun Mustafiz who was appointed since the last Annual General Meeting and comes up for re-election under the Company's Articles of Association

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

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

By Order of the Board

Ranjan Seneviratne
Company Secretary

14 February 2019

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

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

N.B.

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

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

Form of Proxy

(Please read the notes carefully before completing this form)

I/We the undersigned (please print) .... of

.... being a member/members of the Company, hereby

appoint .... of .... whom failing

Javed Iqbal	whom failing
Michael Koest	whom failing
Amun Mustafiz	whom failing
Anil Tittawella	whom failing
Yudhishtran Kanagasabai	whom failing

as my / our Proxy to represent me / us and * ………………………….…...…. vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at 10.30 am on Tuesday, 14 May 2019 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

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

		Yes	No
(i)	To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2018.		
(ii)	To declare a Final Dividend.		
(iii)	To re-elect Anil Tittawella who comes up for retirement by rotation.		
(iv)	To re-elect Yudhishtran Kanagasabai who comes up for retirement by rotation.		
(v)	To re-elect Amun Mustafiz who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(vi)	To authorise the Directors to determine and make donations.		
(viii)	To Appoint Messrs. KPMG as Company's Auditors and to authorise Directors to determine their remuneration.		

....

Signature

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

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

Form of Proxy

Instructions as to completion:

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to the resolution or make any statement in regard thereto on behalf of any Shareholder.

2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.

3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution. If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he thinks fit.

4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (*) and initial such interpolation.

5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If Form of Proxy is signed by an Attorney, the relative Power-of- Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.

6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No.178, Srimath Ramanathan Mawatha,Colombo 15, not less than 48 hours before the time for holding the meeting.

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

Appendices

ENVIRONMENTAL POLICY STATEMENT

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

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

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

Agriculture

We are committed to:

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

Operations and Trade

We are committed to:

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

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

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

Appendices

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

SUSTAINABLE TOBACCO PROGRAMME (STP) POLICY

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

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

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

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

BIODIVERSITY STATEMENT

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

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

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

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

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

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

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

Appendices

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

HEALTH & SAFETY POLICY STATEMENT

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

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

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

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

Corporate Information

NAME OF THE COMPANY

Ceylon Tobacco Company PLC
Reg. No. PQ 29

REGISTERED OFFICE

178, Srimath Ramanathan Mawatha,
Colombo 15

LEGAL FORM

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

REGISTRARS

SSP Corporate Services (Private) Limited

LEGAL ADVISORS

Sudath Perera Associates
Attorneys-at-Law

Messrs. Julius & Creasy
Attorneys-at-Law

Messrs. FJ & G De Saram
Attorneys-at-Law

AUDITOR

Messrs. KPMG Chartered Accountants

BANKERS

Commercial Bank of Ceylon PLC

Citibank NA

Deutsche Bank AG

HSBC

People's Bank

Standard Chartered Bank

HOLDING COMPANY

British American Tobacco Plc through
British American Tobacco International Holdings BV

Designed & produced by
emagewise
Printed by Printel (Pvt) Ltd
Photography by Dhanush de Costa & Taprobane Street