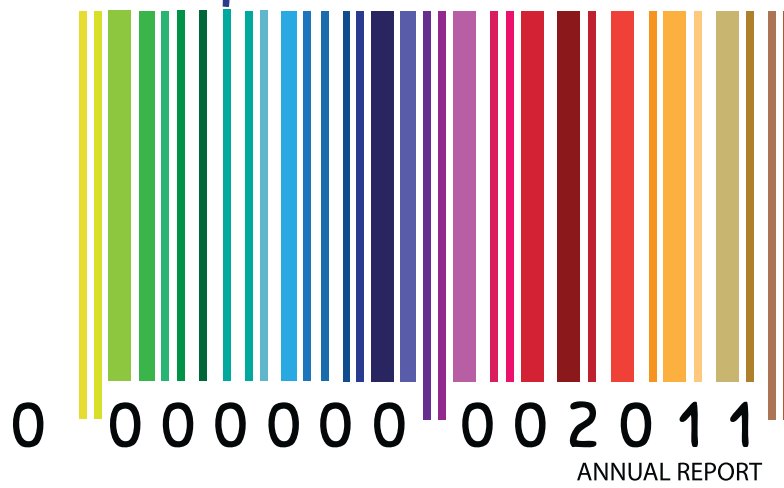


unique.

CEYLON TOBACCO COMPANY PLC



**CEYLON TOBACCO
COMPANY**

A member of the British American Tobacco Group

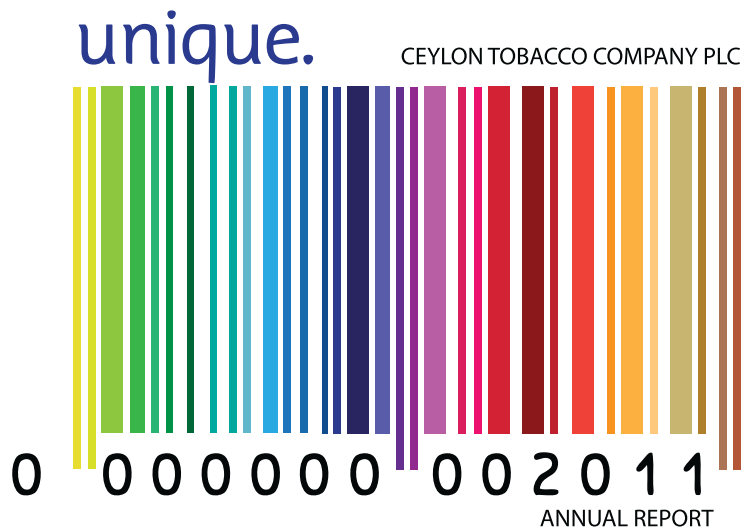


Ceylon Tobacco Company PLC has long been one of the nation's most exceptional companies; distinctive yet understated, known for driving things one step further and for possessing the quality of being unique.

In the year under review we have been executing plans to align ourselves with the fast changing demands of our business; building capacity by improving competencies, streamlining processes and investing in faster systems... strategies undertaken last year which are proving their value today.

The confidence to go forward, the vision to see where opportunity lies, the strength to deliver on our promise... these are the qualities that make us who we are.

Unique.



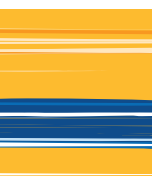
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Financial Highlights

	2011 Rs. Mn.	2010 Rs. Mn.
Gross Turnover (Including VAT)	76,151	63,524
Government Levies	59,127	49,902
Net Revenue	17,023	13,622
Profit before Tax	11,112	8,197
Profit after Tax	6,569	5,097
Net Assets	3,564	3,654
Interim Dividends	5,414	3,737
Proposed final dividends (subject to approval at the Annual General Meeting)	1,067	1,352
Total Value Added	71,622	59,474
Investments	247	191
Market Capitalisation	91,807	66,500
Value Added per Employee (Rs. Mn.)	254	209
Group Employment (Nos)	282	284
Per Share (Rs.)		
Market Value	490.10	355.00
Net Assets	19.03	19.51
Earnings	35.07	27.21
Dividends (Interim and proposed Final Dividend)	34.60	27.17
Dividend Yield	7.06%	7.65%
Number of Shares	187,323,751	187,323,751
PE Ratio	13.97	13.05



Values

Open Mindedness

We are open minded and encourage everyone to contribute, by actively listening; by being genuinely receptive to new ideas and the ideas of others; by being open to different perspectives and questioning and challenging the conventional.

- We listen actively, communicate openly and value feedback.
- We are open and honest in all our dealings and foster a climate of trust and support.
- We encourage creativity and constantly challenge the status quo.
- We operate across functions and boundaries and involve all our stakeholders.

Strength from Diversity

Everyone can flourish and succeed in an environment which values and cherishes differences. The diversity of our people and our ideas create opportunities and give us a competitive edge.

- We seek ideas and accept input from a range of sources.
- We know and value individual abilities and utilise these in improving team contribution.
- We foster a diverse workforce.
- Equality is a hallmark of our workplace.

Freedom Through Responsibility

Our people have the freedom to take decisions and act by accepting personal responsibility, within the parameters of the organisation's strategic goals.

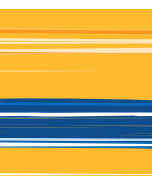
- We are accountable to our people, responsible to the resources they need.
- We actively coach and develop our people.
- We provide role clarity and set and maintain standards.
- We provide an environment that encourages employees to maximise their potential.

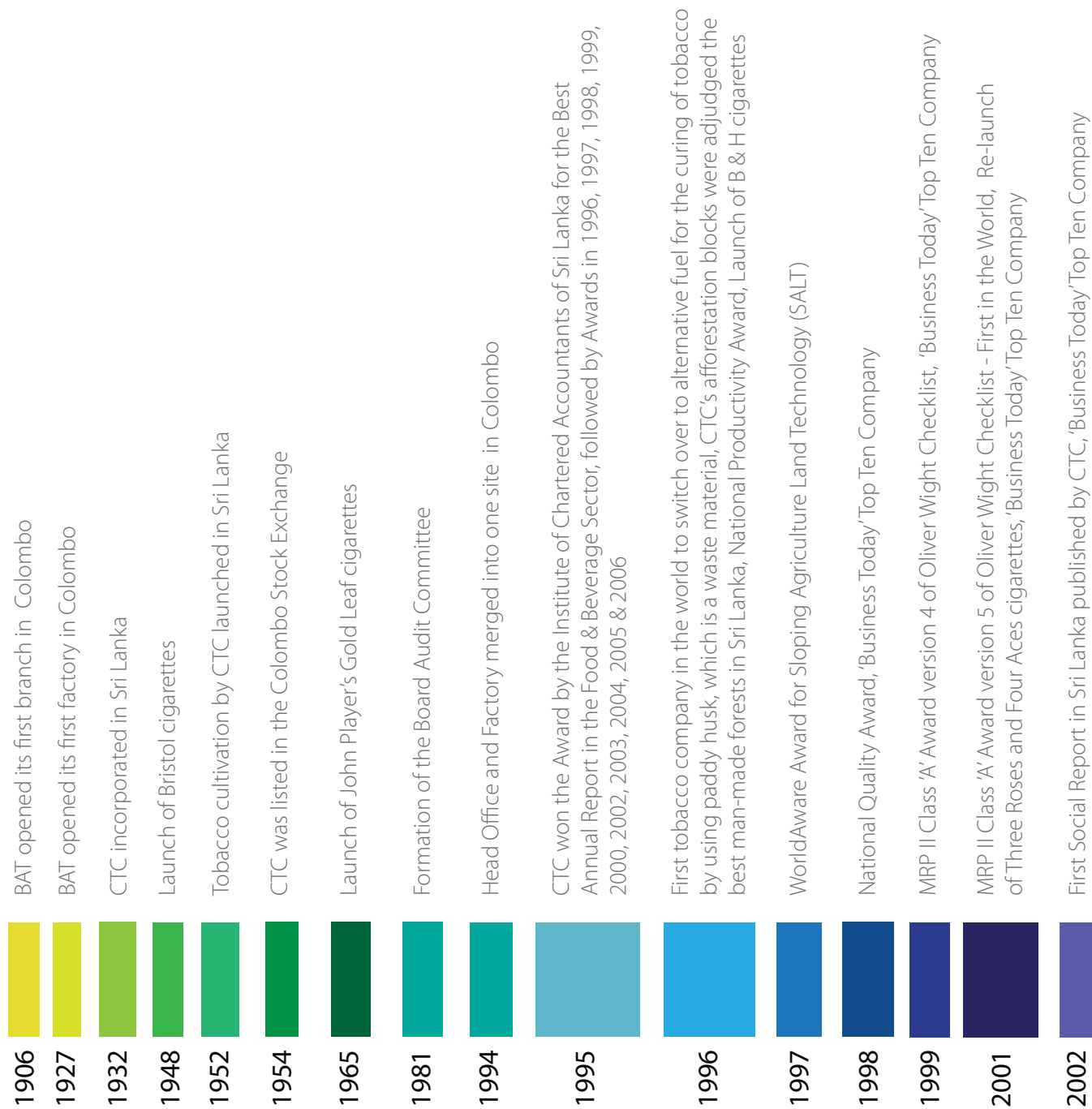
Enterprising Spirit

We strive to do different things in different ways.

- We constantly provide opportunities and experiences to learn and grow to maximise individual potential.
- We encourage an innovative creative environment.
- We celebrate and reward success.
- We challenge our current way of doing things.

unique.





Milestones. 002011

Re-certification of MRP II, Class 'A' Award - First in the British American Tobacco Group to get three Class 'A's (in all five chapters), CSR Reporting Award (ICASL), 'Business Today' Top Ten Company

CSR Reporting Award for 2nd successive year (ICASL), Category Winner - Annual Report (ICASL), One of the Top Ten Corporate Citizens in Sri Lanka (CCC), Category winner for CSR in HR Practices (CCC), Winner - Most Innovative HR Practices Award (National HRM Awards), Winner - Large Manufacturing Sector Award (National HRM Awards), Best Finance Team - (CIMA Janashakthi Pinnacle Awards), 'Business Today' Top Ten Company

Launch of Dunhill signed range of cigars, ACCA award for Sustainability reporting, SAFA Award for Annual Report 2004, One of the Top Ten Corporate Citizens in Sri Lanka (CCC), 'Business Today' Top Ten Company

Launch of Dunhill cigarettes, migration of 'Bristol' to 'Viceroy', SAFA Award for Annual Report 2005, Overall Winner for CSR Reporting 2006 (ICASL), Winner of the Best Energy Conservation Project, One of the Top Ten Corporate Citizens in Sri Lanka (CCC), 'Business Today' Top Ten Company

Launch of Pall Mall cigarettes, ACCA award for Sustainability reporting, British American Tobacco Environment Health & Safety Award for Community, Category Winner - Annual Report (ICASL), One of the Top Ten Corporate Citizens in Sri Lanka (CCC), 'Business Today' Top Ten Company

Dunhill Manufacturing localisation, ACCA Award for Sustainability Reporting — Business Today, Top Ten Company, Platinum Status for Corporate Governance (Inaugural Award)

'Viceroy' migration to 'Pall Mall', Ceylon Chamber of Commerce - Best Corporate Citizens Award - among Top Ten, Special projects recognition for Sustainable Agricultural Development Program, 'Business Today' Top Ten Company

Introduction of a new modern look with the same great taste for JPGL, Launched Dunhill 12s pack, Business Today Top Twenty (placed 4th), LMD 50 most Respected Corporates (among the Top 20).

Reached out to over 10,000 farmers in CTC's SADP program, Introduced Dunhill Switch, a true innovation which brings a unique 2 in 1 taste for our consumers.

2003

2004

2005

2006

2007

2008

2009

2010

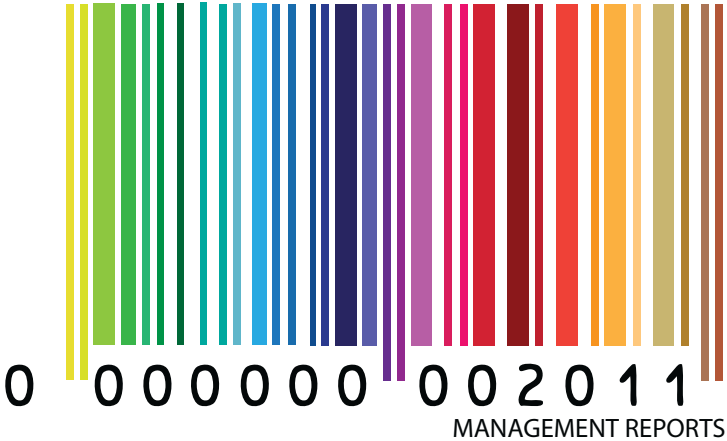
2011

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distinctive. outstanding.





—CTC's proactive approach to productivity enhancements achieved through education, awareness building and investments in technology has defined its —uniqueness~ over the

JAYAMPATHI BANDARANAYAKE

Chairman

—...CTC as a corporate has demonstrated excellence during the year under review, both from an operational and financial viewpoint. Hopefully society at large sees CTC as a responsible company in the conduct of all activities including the manner in which tobacco products are marketed...~

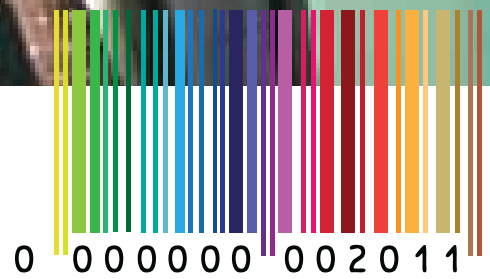
It is with immense pleasure that I present the annual report and audited financial statements for the year 2011. I am confident that the shareholders will be pleased with the performance of the Company. CTC has applied its unique drive for success throughout the year to perform exceptionally across its operations, limiting itself not only to commercial success but also in ensuring the business remains sustainable in the longer term. It is in pursuance of the latter, great efforts have been made adopting sustainable agriculture practices and in implementing the corporate social responsibility initiative, the Sustainable Agriculture Development Program (SADP). The latter is designed to give a helping hand to the upliftment of rural poor, through sustainable agriculture.

BUSINESS ENVIRONMENT

For the global economy, 2011 was a year fraught with challenges. Despite expectations that global economy would recover from recession, new events further clouded the skies, protracting the recovery of the US economy. These challenges included the Euro-zone's exposure to a potential crisis. The domino effect of these near stagnant advanced economies has catalysed and depressed growth projections of economies in Asia and the global economy as a whole. These developments can potentially hurt not only our export markets but dampen the substantial growth prospects of the dynamic tourism sector of this country.

Despite the adversities in the global front, Sri Lanka's economy was buoyant, as a direct outcome of great expectations of economic progress in an environment of peace and stability. The dynamism of the export sector witnessed growth of over 20%, the previous year earnings from tourism and investments in developing infrastructure have also contributed to this buoyancy. Consequently, on wealth creation, a positive trend was evident. Per capita income rose to USD 2,830 and unemployment fell to 4.3% whilst labour productivity improved.

The overall result of these positive developments is greater purchasing power in the hands of the people across the country and consequently a growing demand for goods and services from which your company too has benefited to produce the results that are being placed before you.



Chairman's statement
Building a unique brand.
Delivering strong broad-based growth in dynamic markets...



—...for well over a decade CTC has adopted a Voluntary Code of Conduct, a self-structured framework that confines and regulates its operations within the ambit of responsible corporate behaviour...~

pursue strategic changes for the greater good of the Company

responsibility towards people, environment and country is given the highest priority.

a self-structured framework that confines and regulates its operations within the ambit of responsible corporate behaviour

We look forward to 2012 as a new year of higher expectations. We will hope that all contributors to economic progress including the political leadership, policy framers, vital actors such as the industrialists, business community and trade unions, will rise to the occasion and ensure steady and sustained economic progress. As always challenges will abound with unexpected external shocks and rising expectations of the people. We are confident that national leaders will provide a policy framework to maintain economic progress by ensuring consistent macro economic stability both on the fiscal and monetary fronts. Immediate and short term pressures from politically active segments of society, we hope will not lead to expedient decision making that compromise longer term interests of the economy as a whole.

LEGACY OF CORPORATE EXCELLENCE

I am pleased to claim that CTC as a corporate has demonstrated excellence during the year under review, both from an operational and financial viewpoint. Hopefully society at large sees CTC as a responsible company in the conduct of all activities including the manner in which tobacco products are marketed. As the corporate delivering the highest revenue to the nation, our responsibility towards people, environment and country is given the highest priority. The company takes pride in striving to raise the bar of corporate excellence not only for its own sake but to inspire all institutions to similar ends. This long legacy of excellence has been the defining character of CTC.

CTC's proactive approach to productivity enhancements achieved through education, awareness building and investments in technology has defined its —uniqueness~ over the years and the same approach can benefit most establishments of this country. In 2011, a doubling up of efforts in this sphere has enabled the achievement of results that place CTC's accomplishments along with the top performers. We are pleased that despite the adoption of some critical changes across the value chain, acceptance and the will to pursue strategic changes for the greater good of the Company was the prevailing sentiment amongst the CTC team.

EMBRACING RESPONSIBILITY

CTC adopts a responsible and responsive position with regard to tobacco regulation. For well over a decade CTC has adopted a Voluntary Code of Conduct, a self-structured framework that confines and regulates its operations within the ambit of responsible corporate behaviour – ceasing product advertising in all mainstream media, branding and sponsorship of sporting events. This framework always ensures that CTC works in tune with societal expectations. We acknowledge that the industry requires to be regulated and whilst Sri Lanka adopts stringent regulatory action in the area of tobacco, we have and will continue to engage and maintain a dialogue in support of conducive and pragmatic regulations. It is in this spirit that CTC has actively partnered with law enforcement authorities of the Government of Sri Lanka to overcome actions and activities outside of the regulatory sphere including illicit product control.

Our pioneering efforts to alleviate poverty across the nation reached a milestone in 2011. CTC's mainstay responsibility initiative, the formidable SADP gained further momentum reaching out to 10,000 families during the year. In November 2011, CTC had the honour of His Excellency the President Mahinda Rajapaksa's presence to recognise the enrolment of the 10,000th SADP family.

PROFITS, GOVERNMENT REVENUE AND SHAREHOLDER RETURNS

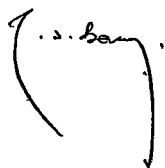
Overall in 2011, the buoyant and expanding economy has enabled the company to increase sales over the previous year resulting in an increase of government revenue from Rs. 56 billion in 2010 to Rs. 66 billion this year. This coupled with the productivity improvement measures have enabled the achievement of an improved after tax profit of Rs. 6.6 billion enabling the payment of 4 interim dividends totaling Rs. 28.90 per share for the year. This result represents a dividend yield of 7.06% as at the year end. We are pleased that this remains one of the highest returns recorded in 2011 despite the higher value per share quoted at the year end.

RETIREMENT OF A DIRECTOR

It is with great admiration for the services rendered that we will bid good bye to Mr Vijaya Malasekera who will retire from the board at the forthcoming AGM. Vijaya has contributed tremendously to the progress of the company over the 39 years of which 7 years had been in a non executive capacity. He has served as a member of the Board over the past 17 years. He leaves behind a legacy with regard to board governance which will serve as an inspiration for those who follow him. On behalf of the shareholders who have consistently reposed the fullest confidence in him I wish to thank him for his tremendous contribution and wish him a well earned retirement.

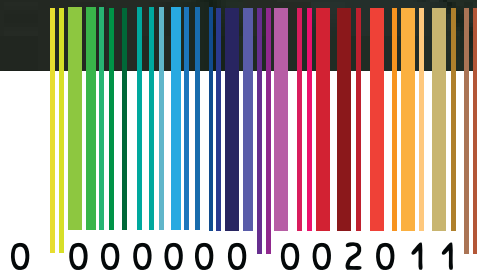
CONCLUSION

I wish to acknowledge and express my appreciation to all our business partners for believing in our strength and capability and whose support was vital to the achievement of these results. To the management team led by the CEO, I wish to thank them for providing the leadership, their dedication and untiring efforts to steer the company maintaining excellence. To the Board of Directors, my appreciation for their support and guidance in all board deliberations and for supporting the management team. We remain committed to the delivery of value, consistently, and at every opportunity to our stakeholders, most prominent of whom are the company's customers and shareholders.



Jayampathi Bandaranayake
Chairman

31st January 2012



—The quality of CTC's people, supported by the continual development opportunities offered to our staff, has led to a situation where our people are in demand not just in Sri Lanka, but across the BAT Group. Long may this continue...~

JAMES YAMANAKA
Managing Director / CEO

Chief Executive Officer's review

Serving a nation well.

We've been focusing on Sri Lankan economic interests and national growth...

—While the strength of the economy was certainly a key driver of the performance of the business in the year under review, initiatives across the business also drove the strong results. In 2011, the company embarked upon a number of efforts to improve the company's brand portfolio...~

Another financial year has come to an end, and it is once again time to take stock of the company's operational and financial performance. I am pleased to be able to report another strong performance across the business in 2011.

In 2011, CTC increased its contribution to government revenues to Rs 66 billion while delivering a profit after tax of Rs 6.6 billion. These results were driven by the strong Sri Lankan economy, the continuing efforts of the government to restrict the flow of illegal products into the country, and the untiring efforts of our people to improve all aspects of the business.

CTC, like most corporates in Sri Lanka, benefited from the strength of the country's economy in 2011, which continued to grow despite the difficult economic environment in many parts of the world. GDP growth in Sri Lanka was significantly above developed world standards, driving up disposable incomes and demand for consumer products across the country. Although growth was strong across the country, it was clear that the government's efforts to develop the North and East and to increase tourism levels have paid dividends, as the company showed particularly strong growth in the former embattled areas and the key tourist hubs.

While the strength of the economy was certainly a key driver of the performance of the business in the year under review, initiatives across the business also drove strong results. In 2011, the company embarked upon a number of efforts to improve the company's brand portfolio, including the successful launch of Dunhill Switch and a limited edition range of John Player Gold Leaf.

Numerous initiatives were also completed in the supply chain to ensure world class standards and performance across our operations. These initiatives resulted in enhanced factory output levels and improved efficiency without compromising on quality. Even with all of these changes and cost optimisation efforts, the company continued to ensure world class environmental health and safety standards, being recognised by the BAT group for its high standards for the 12th consecutive year.

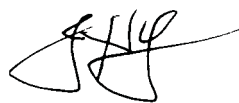
In addition to the company's business achievements, I am particularly proud of the company's continuing commitment to corporate social responsibility. In 2011, the company's flagship CSR initiative, the Sustainable Agriculture Development Program, reached a significant milestone, enrolling the 10,000th family into

the program. The program, which focuses on helping poor rural families reach economic self-sufficiency through home gardening, has now extended across the country, and continues to be a great success and a source of pride for the business while contributing to the government's efforts to alleviate poverty in the country.

All of the company's success in the business and CSR areas would not be possible without the untiring efforts of our people, who have consistently shown the expertise, talent, and drive to continually improve the business. The quality of CTC's people, supported by the continual development opportunities offered to our staff, has led to a situation where our people are in demand not just in Sri Lanka, but across the BAT Group. Long may this continue.

As a final note, I would like to thank the Board of Directors of the company for their support, guidance, and counsel, as well as the Executive Committee of CTC, who have driven the business forward and provided wise counsel and support throughout the year. A special note of thanks should be offered to Mr. Vijaya Malasekera, who will be retiring from the Board after 39 years of service to the company at the Annual General Meeting in April. The Executive Committee and Board wish you a happy, healthy, and productive retirement.

As with all businesses, we look towards meeting more challenges in 2012 but also to achieve greater successes.



James Yamanaka
Chief Executive Officer

31st January 2012

The Board of Directors



ARIYARATNE HEWAGE

SUSANTHA RATNAYAKE

JAMES YAMANAKA

JAYAMPATHI BANDARANAYAKE

distinctive. outstanding.



ATIF HASAN

DESAMANYA DEVA RODRIGO

VIJAYA MALALASEKERA

MOBASHER RAZA



JAYAMPATHI BANDARANAYAKE*Chairman*

A member of the Board of Directors of the company since March 1990 and assumed duties as the Non Executive Chairman in March 2008. He serves on the Board of Investment Sri Lanka and the Board of Finlays PLC. He also holds office as the Non Executive Chairman Of Central Finance Company PLC effective from January 2012. He was a past Chairman of the Employers Federation of Ceylon, the Ceylon Chamber of Commerce and the Board of Investment of Sri Lanka.

He is a Graduate of Law, Fellow of the Institute of Personnel Management Sri Lanka, Fellow of the Institute of Chartered Corporate Secretaries of Sri Lanka and the Institute of Certified Professional Managers [ICPM].

DESAMANYA DEVA RODRIGO

Deva Rodrigo was appointed to the Board of Directors of CTC in October 2006. He is the former Territory Senior Partner of PricewaterhouseCoopers Sri Lanka and Maldives and a former Chairman of the Ceylon Chamber of Commerce. He is currently a Non-Executive Director of Softlogic Holdings PLC and Chevron Lubricants Lanka PLC. He has held many public appointments including those as a member of the Telecommunications Regulatory Commission, Presidential Commission on Trade and Tariff and the Monetary Board of the Central Bank. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka. Mr. Rodrigo serves as the Chairman of the Audit Committee of Ceylon Tobacco Company PLC.

VJAYA MALALASEKERA

Vijaya Malalasekera joined CTC in October 1973. He was appointed as an Executive Director to the Board in January 1995 and since August 2005 he is a Non- Executive Director. He is currently the Chairman of Bogala Graphite Lanka PLC, Ascot Holdings PLC, Ascot Development (Pvt) Ltd and Boston Capital (Pvt) Limited. He also serves on the Board of Carson Cumberbatch PLC. He is currently a member of the University Grants Commission.

SUSANTHA RATNAYAKE

The Chairman and CEO of John Keells Holdings PLC, Susantha Ratnayake is a Council Member of the Employers Federation of Ceylon, Chairman of Ceylon Chamber of Commerce and serves as a member of several clusters of the National Council of Economic Development. He was appointed to the Board of Directors of CTC in October 2006.

ARIYARATNE HEWAGE

He was appointed to the Board of Directors in April 2008 as a Non Executive Director. He is a senior public officer and the former Secretary to the Ministry of Education. He has served in the regions as well as in central government agencies. He has served as the Secretary to Ministry of Ports and Aviation, and several other ministries as the secretary. He has worked as Director, Policy and Institutional Development of USAID funded Environmental Policy Project for five years on release from the government. He has obtained the degrees of Bachelor of Education (B.Ed) from University of Peradeniya and Master of Public Administration (MPA) from West Virginia University, USA. He was awarded Hubert Humphrey Fellowship by the US Government to pursue higher studies.

MOBASHER RAZA

Mobasher Raza was appointed to the Board of Directors of CTC in November 2007 as a Non Executive Director. He has been with the British American Tobacco Group for the last 32 years. He held various key positions in the Finance function that include Internal Auditor for British American Tobacco UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica Duhana Zadar (British American Tobacco subsidiary in Croatia) and Finance Director in Pakistan Tobacco Company Ltd (PTC) In November 2006, he was appointed as Deputy Managing Director of PTC In addition to his role as Finance Director.

ATIF HASAN

Finance Director

He was appointed to the Board of Directors of CTC in August 2010. He has been with British American Tobacco Group for the last 15 years. He joined Pakistan Tobacco Company (PTC) as a Management Trainee in 1996. Atif holds an MBA in Finance from Lahore University of Management Sciences (LUMS) and also is a Chemical Engineer from Bosphorus University, Istanbul, Turkey.

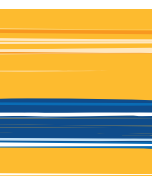
Prior to his appointment in Ceylon Tobacco Company PLC as Finance Director, Atif was the Finance Controller for PTC. He has held various key senior positions in Finance within BAT Group before that, including a stint in the Regional European Treasury as Senior Treasury Advisor based in Hamburg, Germany.

JAMES YAMANAKA

Chief Executive Officer

He was appointed to the Board of Directors of CTC in January 2011 as Managing Director /Chief Executive Officer.

He has worked for British American Tobacco (BAT) since December 2003 and held various key positions such as Regional Strategy and Program Manager, the Regional Manager and the Regional Brand Manager in Asia-Pacific Area, the Head of Strategy and Planning in BAT Germany and Enterprise Program Manager in BAT UK. James holds a MSc in Foreign Service from Georgetown University (USA) and an MBA from London Business School, as well as a BA from the University of California. Prior to joining BAT, James was a London-based strategy consultant, working primarily on projects in the mobile telecommunication industry in Europe and Asia.



The Executive Committee



ATIF HASAN
Finance Director

RAJIV MEEWAKKALA
Marketing Director

S. M. KHALED
Supply Chain Director

SURANI AMERASINGHE
Human Resources Director

strong. effective.



RANJAN SENEVIRATNE
Legal Director /
Company Secretary

DINESH DHARMADASA
Corporate & Regulatory Affairs
Director

JAMES YAMANAKA
Chief Executive Officer

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Management Discussion & Analysis

GROWTH



Marketing in a Regulated Environment

OVERALL MARKET CONTEXT

The volume decline the company had persistently witnessed over the last few years stabilised with the opening up of the Northern and Eastern provinces and the surge in tourist arrivals. In addition, strict enforcement by authorities in respect of smuggled tobacco products resulted in over 76 million sticks being confiscated during the year.

PORTFOLIO MANAGEMENT

We recognise that our business starts with our consumers and our brands. Our marketing strategy is focused on meeting the preferences of adult consumers (above 21 years of age).

Whilst developing our Global Drive Brands, the overall strategic intent of CTC is to grow value in a highly regulated industry. Aligned to this strategic imperative is CTC's brand portfolio which is focused on driving Dunhill and John Player Gold Leaf (JPGL) at the top most level supported by an effective and efficient trade marketing and distribution model. The resource distribution reflects this alignment, with Dunhill driving premium growth whilst JPGL caters to the high-priced segment of the market.

In the financial year under review, focus was on infusing innovation to the brands along the continuum of the brand portfolio, thereby enhancing each brand's equity.

In 2011, the premium segment comprising of Dunhill demonstrated strong growth. The brand's role is to grow the premium segment through the provision of tangible value addition to consumers.

The Dunhill product range consisting of the DUNHILL Signed Range of Cigars as well as cigarettes are available in Sri Lanka under the umbrella of 'House of Dunhill'.

In a bid to extend the brand's equity, in 2011, two significant investments were made into the Dunhill brand. During the year, a pack designed under the theme —Discover Passion™ was released to the marketplace. The pack was a first for the Sri Lankan market and was designed to add modernity to the brand. Innovation in the form of technology, further added value to the product offer.

With the intent of providing a tangible value addition to the Sri Lankan consumer, DUNHILL Switch was launched in Sri Lanka in Q4, the first country to do so in the South Asia Area. Consisting of Switch technology, DUNHILL Switch, provides consumers two tastes in one cigarette. This coupled with premium world class packaging, enabled the product to be positioned at the apex of the premium range.

The international brand, Lucky Strike, was introduced to the portfolio and made available in tourism specific locations to meet the growing demand by European tourists for American flavour blends. Lucky Strike further adds value to CTC's portfolio strategy by extending the proposition of value and choice to the consumer.

In the high-priced segment, JPGL continued to demonstrate a growth trend as witnessed in the previous financial year. In 2011, further innovation of the brand by way of a limited edition pack aided the growth momentum. Launched as —Black Extreme™ and —Blue Fresh™, the menthol variants introduced the thread mentholation technology for the first time to Sri Lanka. The launch served to bring greater modernity to JPGL, a brand which has had a long legacy in the Sri Lankan market.

In the mid range segment, global drive brand Pall Mall remained on maintenance mode during the financial year under review with strategic focus on managing distribution and price. Pall Mall offers an international product to consumers with the twinned benefits of high-quality balanced with value for money.

The brands Capstan and Three Roses constitute the very lower-end of the portfolio and continued to play a critical role in containing the growth of illicit volumes in the marketplace. The two brands displayed marginal volume growth in 2011.

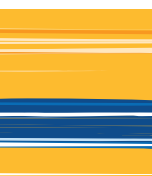
TRADE MARKETING & DISTRIBUTION

To capitalise on the market opportunities that arose in the year, CTC deployed a number of strategies to further strengthen its trade marketing and distribution efforts during the financial year.

CTC has had a presence in the North and East for many years. In 2011, as communities returned to normalcy and commercial enterprises flourished, CTC was one of the first FMCGs to establish business in the area, undertaking strategic initiatives to enhance its trade marketing and distribution. As such, the distribution network was largely revamped in the provinces. By the end of the financial year, over 80 per cent market coverage was achieved in the Northern and Eastern provinces.

Across much of the rest of the nation, efforts were made towards further enhancing distribution with focus on penetration through the utilisation of a greater number of retail points. Wholesaler distribution was re-configured during the year, with wholesaler dependency restricted with the objective of achieving greater control over the trade marketing and distribution functions.

Investment and resources were focused on meeting specific market changes. For example, trade marketing and distribution was enhanced in geographic areas typically recognised as tourism belts. Better distribution of premium and high-range brands gathered speed in 2011. Distribution of JPGL increased by as much as 10% across the country whilst Dunhill witnessed a 35% growth in distribution.



Distributor List



Name	Length of Relationship (Years)
------	--------------------------------

COLOMBO

Arunadisi Ltd.	83
W.D. Paulis Appuhamy & Co.	79
Samaranayake & Co. (Pvt) Ltd.	60
Jaywardene & Sons	27
Excel Distributors (Pvt) Ltd	7

SOUTH

S.U. Mohamed Hadjar (Pvt) Ltd	80
K.M. Siyaneris (Pvt) Ltd	80
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	80
Wickramaratne Distributors (Pvt) Ltd,	25

CENTRAL

Bibile Trading & Forwarding Agency	67
Gamani Bros Ltd	55
Kalmunai Distributors	55
Ampara MPCS Ltd	47
Amirthans Distributors (Pvt) Ltd	25

NORTH

D.S. Gunasekera Ltd	55
G.H.A. De Silva & Co.	55
Kurunegala Merchants Ltd	45
Kugan Stores	11



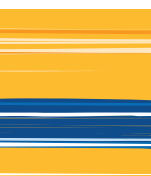
Supplier	Country	Length of Relationship (Years)
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FOREIGN SUPPLIERS

Tann Papier G.M.B.H	Austria	28
Daicel Corporation	Japan	23
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	23
Henkel Adhesive Technologies SDN BHD	Malaysia	17
Arets Graphics	Belgium	2
Indian Tobacco Company Limited	India	12
General Metallisers Limited	India	12
Anzpac Services (Australia) Pvt Ltd	Australia	11
Tann Philippines Inc.	Phillipines	7
PT Argha Karya Prima Industry,TBK	Indonesia	6
Siegwerk Switzerland AG	Switzerland	6
PT Bukit Muriya Jaya	Indonesia	3
PT Filtrona	Indonesia	3
Tien Wah Press	Malaysia	3
Mitsubishi Corporation	Japan	3
Amcor Tobacco Packaging	Singapore	2
Benkert Malaysia SDN BHD	Malaysia	3
Henkel Adhesives Technologies India (Pvt) Ltd	India	1

LOCAL SUPPLIERS

ACE Printing & Packaging (Pvt) Ltd	19
Ceylon Tapes (Pvt) Ltd	13
Packwell Lanka Limited	12
PrintCare Packaging (Pvt) Ltd	5



PRODUCTIVITY



Delivering better results in a shorter time, in a focused manner

PRODUCTIVITY THAT IS UNIQUE

The financial year under review was once again a year of excellence for CTC's supply chain function across all its components. Supply chain continued to be at the core of CTC's successes in 2011 and was notably a key area in which strategic innovation thrived. During the year under review, numerous productivity based initiatives redefined CTC's value chain further enhancing its character as unique and innovative.

CTC's supply chain function is characterised by innovation, synergy, and dedication. In 2011 as in previous years, productivity enhancements were key strategic priorities for the year. Diversity, looking beyond the traditional to innovation driven solutions, synchronised and multi-tasking capabilities, and the strength of a dynamic team have all collaborated to deliver value during the financial year.

Continuous innovation in Leaf Sustainability

Within the BAT network, CTC holds a unique position of excellence in leaf sustainability by domestically producing almost 100 percent of the annual tobacco requirement. Domestic production through tobacco cultivation engages approximately 15,000 farmers in rural Sri Lanka and serves as a catalyst in farmer wealth creation as well as rural sector stimulation.

In 2011, the challenges for leaf sustainability arose mainly from weather-related issues with a significant degree of crop failure

evident due to continuation of drought. With the probability of crop harvest being lower than the expected, CTC collaborated with the farmer community to overcome the challenge by introducing micro-irrigation methods. This enabled farmers to optimise the available water through the use of sprinkler systems and Agro-wells. The intervention proved successful and the eventual crop harvest met the domestic requirement.

CTC's leaf sustainability efforts continued to be recognised by BAT as a unique effort in terms of the sustainable practices employed, and continued to be the only leaf operation in the network to use alternative fuel from paddy husk as the core fuel source for the Leaf Curing process.

CTC continued to re-affirm its commitment to over 15,000 rural farmers engaged in leaf cultivation and curing through recognition programs, workshops, bonus schemes, farmer hotlines and forward contract systems that guarantee set prices for their produce despite market price plunges. During the year CTC continued to renew its role as facilitators in the lives of the farmer communities by assessing how best it can enhance their lives and livelihoods.

The —Farmer Appreciation Program~ was conducted in 2011 for the 7th consecutive year and witnessed the recognition of commitment and excellence amongst the CTC farmer base. A total of 73 were recognised in 2011 for their contribution towards the success of CTC in the presence of the Minister of Agriculture and other dignitaries. CTC's Farmer Appreciation Program has over the years fostered and developed model farmers to specialise in technically competent farming methodologies as well sustainable farming practice.

CTC's model farmers have been instrumental in pioneering knowledge-share amongst the farming communities within their geographic areas, thereby permeating the culture of sustainable practice to others. The Agri-extension program facilitates farmer development further, by inculcating practices to enhance crop profitability whilst maintaining and enhancing crop quality.

Re-configuring the manufacturing framework

CTC's achievements during the year are largely the outcome of a critical reconfiguration of the operational model. In 2011, CTC graduated from a 2 shift operational model to a 3 shift model. This unique approach enabled CTC to achieve new heights in productivity and will be a key success factor in the Company's ability meet corporate objectives in the medium term.

Additionally, in an effort to further improve operational indices and with the objective of achieving the accolade of becoming the —Best run small factory in BAT~, CTC deployed the —StarPlus Program~ during the year. —StarPlus~ aims to foster greater productivity enabling all resources – both human and technological – to deliver enhanced levels of output in a continuous manner. As an outcome of this initiative, CTC registered the highest productivity

levels in the relevant machine category in the Asia Pacific Region in the month of October 2011.

Largely due to CTC's continuous focus on productivity enhancements and its consistent strategy towards innovation across the value chain, in-house conversion of GDX 1 machine to improve productivity in VFM 59 mm cigarettes category was a symbolic milestone in fostering local innovations. The Company was also able to reduce wrapping material waste to the lowest recorded figures over the last three years and achieved the highest productivity in terms of output per man hour over the same period of time. Other key highlights were, successful launch of Dunhill Switch to the local market, Lucky Strike in two variants for both local and Maldivian markets and two Limited Edition Products for JPGL, together with marketing.

To further strengthen the CTC quality culture, Quality Department ran — step up to quality~ program throughout the year 2011. This helped to generate momentum and enthusiasm and focus around quality.

Planning, Logistics & Procurement

During the financial year 2011, the 3PL logistics at the Kandy Plant was fully implemented. In addition, CTC effected a smooth transfer to the above market planning process (Advanced Planning Optimizer) which derived synergies across the region. As such, in the Production Conformance To Plan (PCTP) index CTC established itself in a position of leadership with a ranking of first position in the South Asia Area and the third position in the Asia Pacific Region.

During the year, the Company also restructured its Procurement/ Logistics structure in line with global BAT guidelines to drive optimization and efficiency across processes. Major initiatives to bring cost savings through effective sourcing further aided CTC's drive towards productivity enhancement during the year.

Excelling in Environmental Health & Safety

CTC maintains BAT's standards in Environmental, Health and Safety while complying with EHS related national laws and regulations and implements an EHS management system that is a three pronged effort; to reduce impact on the natural environment, reduce the impact of work on the health and well-being of employees, and to create an open and transparent environment in communicating performance. CTC recognises that the successful implementation of an EH&S strategy improves corporate efficiency whilst delivering on the aim of doing business responsibly.

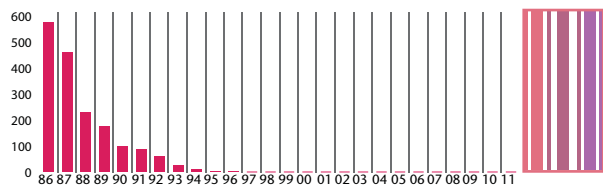
In 2011, CTC derived the results of this focus on EHS by recording 12 years without a Lost Workday Case Accident, a unique achievement that received both global and regional recognition with CTC's operations receiving a number of accolades from BAT. As such, CTC's Colombo office was awarded the Gold Award by the Board of Directors of British American Tobacco whilst Leaf Threshing Plant

in Kandy was awarded a Merit Award. Similarly, Trade Marketing completed 1 year of no lost workdays in 2011 and received a Merit Award.

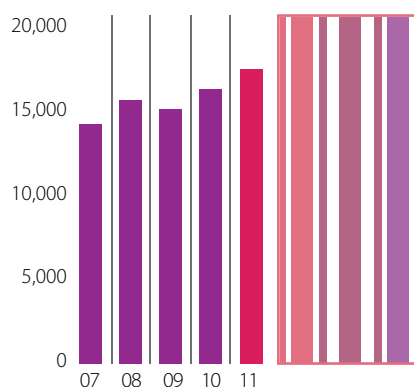
EHS remains an area of critical concern for CTC and is a concept that is embedded into every facet of its operations with responsibility placed on every employee to abide by EHS guidelines and strive towards EHS excellence. This pervasive acceptance of responsibility for EHS is attributable to CTC's achievements in the area in 2011. The Company has taken this stance of organisation-wide EHS awareness and responsibility a step further by ensuring that all contract employees also adhere to EHS standards. This commitment towards EHS enabled CTC in 2011 to score a rating of 3.7 out of a top rating of 4.0, after an assessment carried out by BAT's global EHS team against the BAT EHS Roadmap. Over the past decade, due to CTC's focus on pursuing and achieving EHS excellence, the Company has witnessed a gradual increase in the roadmap rating every year.

During the year, CTC also was recognised with the Geo Responsibility Silver Award for excellence in waste management awarded by Geocycle. The Company continues to conform to ISO 14001 and the OHSAS 18001 standards.

Lost Work Day



Cigarettes per man hour (CPMH)



RESPONSIBILITY



Activating economic development through pro-active partnerships

RESPONSIBILITY AS AN INCLUSIVE CORPORATE PROCESS

At CTC responsibility is an inclusive element of the corporate process. Our business principles, mutual benefit, responsible product stewardship and good corporate conduct cover the key issues that we believe underpin Corporate Social Responsibility (CSR). A focused, concerted and strategic sustainability drive has been the pivot of CTC's corporate process, not only in the year under review but for over hundred years of operations in Sri Lanka.

The importance of responsibility and sustainable practice is exemplified by CTC's approach to sustainable corporate behaviour. Driven by Outreach Projects (Guarantee) Limited, which was incorporated in 2009 as the CSR arm of the Company, it operates with a Board of Directors.

The Outreach Board of Directors meets a minimum of twice a year, where the overall present and future strategy of Outreach is discussed and reviewed. Group CSR performance of CTC is monitored through a Board CSR Steering Committee and at regional and local levels through combined audits and CSR committees.

Stakeholder contributions, views and perspectives, one and all, are much valued. From employee induction to supplier dealings, the notion of sustainability is a sound principle that is given the highest priority. CTC is consistently committed to operating in an open and transparent way and —bringing the outside in~ by listening and responding to its stakeholders on topics that matter to them.

SUSTAINABLE AGRICULTURAL DEVELOPMENT PROGRAM – CTC'S FLAGSHIP CSR PROJECT

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

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

SADP provides families with inputs to develop their home gardens by providing seeds, poultry, animal husbandry, apiculture and mushroom cultivation with the necessary knowledge, skills and supervision.

Families who successfully graduate from SADP are economically self-sufficient and are able to meet their daily nutritional requirements. Working on the philosophy of —helping those who are willing to help themselves~, some of the salient features of SADP are voluntary registration, no cash handouts and the increment of input based on the commitment of the beneficiaries to rise above poverty.

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

VISION & OBJECTIVES OF SADP

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

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

- Provide a balanced meal and improve nutritional intake through the produce of their own home garden.
- Increase the level of agricultural knowledge through training.
- Provide an additional source of income through the sale of excess produce.
- Female empowerment.
- Enhance land utilisation & improve productivity.
- Organic Farming.

ALIGNMENT OF SADP

The Sustainable Agricultural Development Program (SADP) developed by CTC is aligned with the international and national priority of poverty alleviation through agriculture.

Internationally, SADP is aligned to Millennium Development Goal No 01: —Eradicate extreme poverty and hunger” by sustaining themselves by meeting their daily nutritional needs through the produce grown of their own home gardens, through their own efforts.

Nationally, SADP is aligned to governmental priorities for poverty alleviation, particularly through the —Api Wawamu Rata Nagamu” (let us cultivate and uplift the nation) program as well as the —Divi Naguma” (Building Lives) program.

KEY FEATURES OF SADP

- Families are selected based on their commitment and capability to adopt and adapt to the technology and best practice transfers.
- A mind shift is created in the participants to believe in their ability to make a better life for themselves.
- Women are empowered to take a lead role and relieve the husband to look at more permanent employment.
- The environment and ecology are protected.
- Productivity of the home garden is greatly enhanced through the use of compost and the use of integrated pest management.
- No cash handouts given by this project.
- Involves the entire family.
- The program is designed to meet the household food and nutrition needs and the excess produce is sold in the village market.

PROFILE OF SADP FAMILY

A typical family that benefits from SADP lives with their children in a basic house on a 20-40 perch land in rural Sri Lanka. In order to become a beneficiary under SADP, the family should possess land for cultivation with access to water.

On average, the adults have received basic education and are either unemployed or engaged in irregular manual labour based employment. Their monthly income is less than Rs. 3,320.

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

BENEFITS OF SADP

Mitigating Malnutrition

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

Environmental Impact

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

Female Empowerment

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

Social Benefits

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

Economic Benefits

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

Creating Paradigm Shifts

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

Implementation

Project implementation is in four stages during a period of two and a half years.

Stage 1 0-6 Months: Recruitment	Stage 2 7-15 Months: Vegetables & Poultry	Stage 3 16-24 Months: Animal husbandry	Stage 4 25 - 30 Months
<ul style="list-style-type: none"> • Registration • Compost pit • Gliricidia Fencing • Issue of Plants & Seeds 	<ul style="list-style-type: none"> • Forming Clusters • Forming Societies • Issue of Plants & Seeds • Poultry 	<ul style="list-style-type: none"> • Issue of Goats • Issue of Plants & Seeds 	<ul style="list-style-type: none"> • Preparation for graduation • Graduate after 30 months
Field Support			

EVOLUTION OF SADP

Since the commencement of SADP in 2005, it has evolved to meet the new challenges along the way. In 2009 a hybrid of SADP was introduced namely, SADP Plus. In 2010 SADP Lite and in 2011 SADP Mega were introduced.

SADP

SADP was introduced in 2005 as a poverty alleviation program under which 7,115 Families as at 31st December 2011 living below the poverty line in selected rural villages from 11 districts of Sri Lanka were provided with the required input to become self-sufficient through home gardening and animal husbandry. Under this program the beneficiaries are supported for two and a half years.

SADP PLUS

With the liberation of the eastern province from conflict in 2009, the nation was faced with the task of rebuilding the lives of the many thousands affected by the war. CTC as a responsible corporate envisioned the need to assist in this reconstruction effort and accepted an invitation extended by the Government of Sri Lanka to the private sector, to develop livelihoods in the eastern province as a part of a national post-war rebuilding initiative. As such it initiated SADP Plus, an extension of its successful self-sustenance program aimed at poverty alleviation. The project focuses on giving people a means for livelihood development in the post conflict Eastern province.

SADP Plus, like its sister project SADP, is based on the theme of sustainable agriculture. There are two main work-streams under the project: developing self-sustenance through home gardening and developing livelihoods through cash crop cultivation. The selected families are provided with the education and inputs required for this purpose. The objective of the project is to ensure that the

participating families are capable of sustaining their livelihood after the completion of the program at the end of a period of two and a half years.

In 2009, 1,700 families were recruited to the program. With a commitment towards ensuring equitable ethnic diversity, the program aims to achieve a clear balance amongst all communities. SADP Plus currently operates in seven villages across the Trincomalee District. By end of first quarter 2012 all participants will complete the program.

SADP LITE

As an extension of SADP to the Northern Province, CTC initiated a hybrid project SADP Lite in 2010. The project recognises the need to impart ex LTTE-combatants with knowledge that can empower them sufficiently to lead satisfactory lives whilst sustaining themselves and their families through new skills. SADP Lite is a program that aims to impart vocational training on agriculture, stemming from the original flagship project SADP. Initiated in response to a request by Ministry of Rehabilitation and Prison Reforms. SADP Lite has a program cycle that covers a period of 12 months and has benefited 1,449 participants.

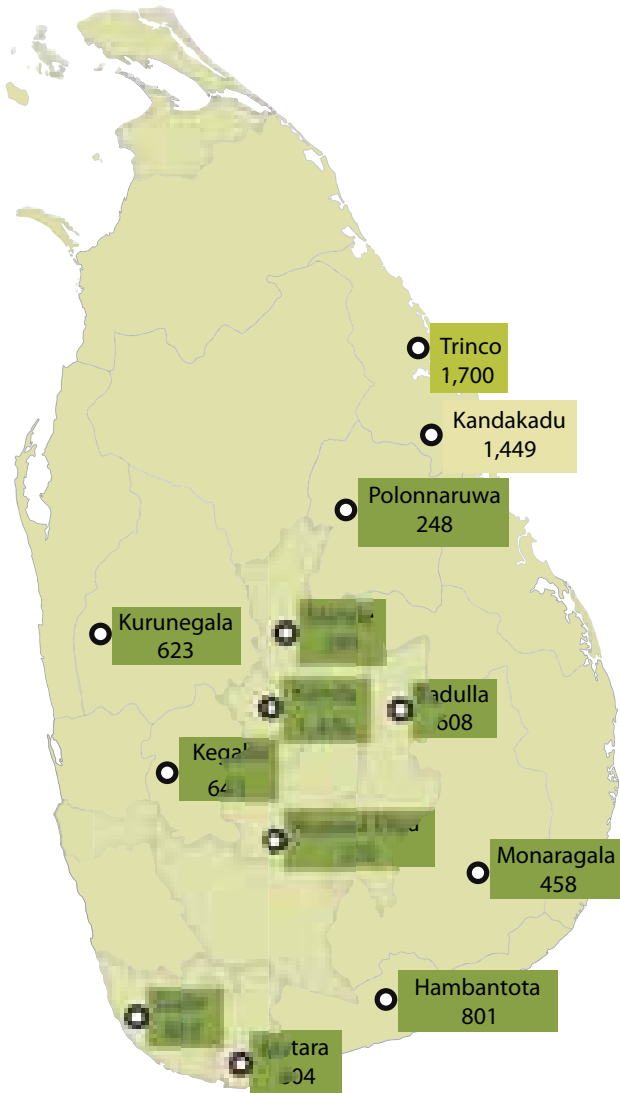
SADP MEGA

SADP Mega was initiated in the 1st Quarter of 2011, to establish an organic model farm in Suriyawewa in Hambanthota District for the benefit of the community.

SADP PROGRESS

The program now covers 12 districts across Sri Lanka and aims to empower and enrich the lives of 14,000 families by the end of 2014. It's well on its way - 10,264 families (which comprises of 36,671 beneficiaries) had joined the program by the end of 2011 and more than half have graduated already.

DISTRIBUTION OF FARMER FAMILIES BY DISTRICTS

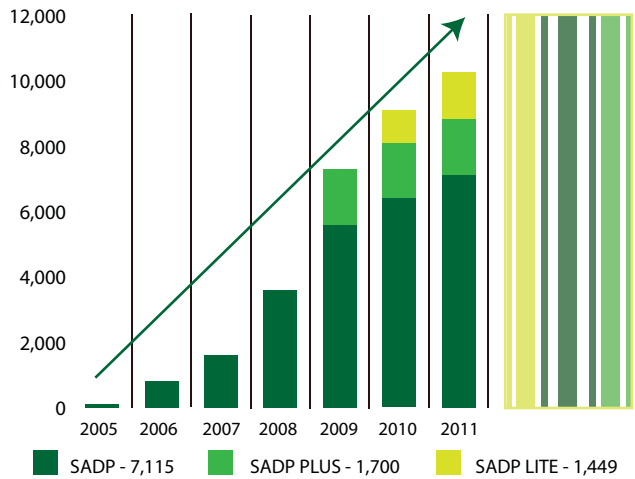


SADP	7,115
SADPlus	1,700
SADLite	1,449



SADP Number of Families

Number of Families



REBUILDING POST-CONFLICT SRI LANKA

In 2012 the main focus for SADP will be to provide support for the people in the North, focusing on the Kilinochchi district. To achieve this, the necessary infrastructure and requirement of staff has been identified.

THE EMPLOYEE PARTICIPATION IN CSR ACTIVITIES

The company organized a program named 'Know What Matters' to give its employees the opportunity to participate in CSR activities and thereby inculcate the values of CSR. A total of 72 employees volunteered for this program and spent 1,532 man hours in conducting 8 CSR projects in four districts. These projects included the renovation of hospitals in remote areas and setting up community centers. In addition to conducting these CSR projects the volunteers also supported the Outreach staff to identify new beneficiaries for SADP in Galle, Waligama, Nikawaratiya, Gallewela, Gala Gedara, Galgamuwa and Ududumbara.



Environmental Health & Safety Policy

Ceylon Tobacco Company, as a manufacturer marketer and distributor, applying the best international practices in all aspects of its operations, and as a good corporate citizen, is committed to:

- Provide and maintain safe and healthy environment including safe systems of work for its employees and non-company personnel on company premises.
- Provide and maintain an Environmental, Health & Safety Management System conforming to ISO 14001 and OHSAS 18001 standards.
- Closely monitor and take necessary steps to minimize and eliminate impacts of its activities on the physical environment under its control.
- Analysing and Evaluating of Occupational Health & Safety Hazards associated with its activities and initiating actions to mitigate such hazards.
- Comply with all national laws and regulations on Environment, Health and Safety, BAT EHS Guidelines and seek conformation to other requirements in line with Business Objectives.
- Establish procedures to assess and review the Environment Health and Safety impact of its present and future activities on a regular basis.
- Seek continual improvement of its work environment and physical environment by conformance to clearly defined set of company objectives and targets, through proactive and cost effective measures.
- Ensure through the Supply Chain Director that an appropriate Environment, Health and Safety organisation exists to communicate, train and continually improve standards of CTC.

James Yamanaka
Chief Executive Officer



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, national and local 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 existing systems and tools, such as:

Environmental, Health and Safety (EHS) policy guidelines
Agronomy Guidelines
Social Responsibility in Tobacco Production (SRTP)
Business Enabler Survey Tool (BEST).

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

James Yamanaka
Chief Executive Officer

WINNING ORGANISATION



The best team, the best operations, the best results

DEVELOPING PEOPLE INTO INTERNATIONAL PROFESSIONALS

CTC adopts a unique HR approach that is best defined by the opportunities that it offers its employees. The main thrust of CTC's HR strategy is focused on developing people to be world-class professionals. With a strategic objective to be a key talent provider for BAT, CTC adopts a people specific strategy that revolves around not only CTC's human resource needs but also the requirement of the global network. Thus, recruitment and retention strategies are invariably dependent on attaining a global fit.

As a multinational company, CTC provides a platform for local talent to learn and grow into professionals with the capacity to operate across the global BAT network. The flat organisational structure, progressive work culture and a focused human resources development strategy have enabled CTC to produce a cross-section of corporate successes internationally.

COMMITMENT DEFINES THE CTC TEAM

CTC's successes as a commercial enterprise is dependent on its exceptional and winning team. At every level and across the length and breadth of the organisation, individuals work together with a fixed focus on a common set of goals. To sustain the value chain from seed to smoke, the CTC team works with commitment and

drive, accepting change and innovation as a way of life. Though CTC is unionized, it remains one of the few organisations where change initiatives are met with universal acceptance. In 2011, the CTC team once again demonstrated this commitment to work cohesively towards the greater good of corporate strategy, as CTC effectively implemented yet another strategic change initiative.

HR PLANNING FOR THE MEDIUM TERM

A constantly changing external environment together with a shifting market situation requires CTC to be equipped to tackle more potent challenges and to reap from future opportunities. To do so, the Company recognises that it is imperative to grow and nurture the next generation of leaders. From a talent development perspective the focus during the year under review was to enhance the ownership orientation and to expedite the development of the talent base in order to meet the requirements in the medium term arising from a constantly changing external environment.

In 2011, CTC pursued a number of strategies aimed at identifying and developing key people for local team succession. Planning ahead in making sure that CTC effectively retains the right people, CTC adopts a rolling strategy, annually planning and aligning the scope for the medium term whilst evaluating the HR requirement and the talent in place to meet future corporate objectives. By 2013, CTC plans to objectively have in readiness a team of successors for key management positions.

The Company's structured Management Trainee Program (MTP) has for many years continued to attract some of the best, young talent in Sri Lanka. With CTC positioned as a —great place to work', talent attraction and development through the Management Trainee Program has been effective, giving the opportunity for aspirants to become global professionals with capability to work in diverse contexts and cultures. With many of CTC's current management having evolved through the Management Trainee Program, CTC is confident of its role as an effective conduit for HRD in the years ahead.

In 2011, the MTP was a key instrument in talent attraction. A major recruitment drive was initiated infusing greater innovation and creativity to the process in an effort to enhance the employer brand. The recruitment process endeavored to use the process as an opportunity to showcase the operations and the culture of a World Class Company. The recruitment process created a conducive platform to assess recruits beyond face value, seeking latent talent and leadership qualities which, once nurtured will continue to give CTC the edge to lead in corporate excellence.

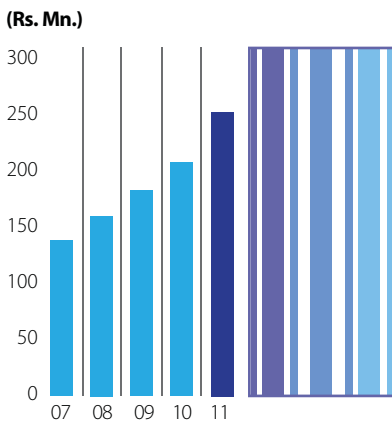
CREATING A WINNING ORGANISATION

CTC is a cradle of excellence both from a corporate as well as from an individual advancement perspective. The Company's internal working culture and modern management styles place it at the forefront of management excellence in Sri Lanka. By giving young people the lead to drive the business forward, CTC inspires and empowers future leaders to contribute in key and strategic areas of business. This fosters independence and confidence, and prepares young team members for key positions within the organisation as their corporate maturity becomes more evident to the Company. With much of the second tier management consisting of young professionals inducted from various other industries, CTC reaps the benefit of fresh thinking and ideas. CTC as a company is the

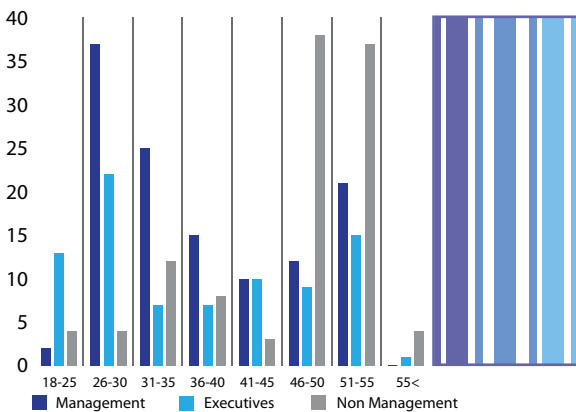
amalgamation of diverse individuals and their attributes, all which synergise to drive the Company forward. The international know-how and best practices keep CTC and its teams at the vanguard of corporate excellence, inspiring other corporates in Sri Lanka and the Region.

The diversity, fluidity and the uniqueness of CTC's human resource base are best described through the following statistics. In 2011, CTC promoted nearly 25 percent of its Managers, over 6 percent of the Management staff was seconded to operations in the BAT network and approximately 15 percent of the Management comprised of new recruits.

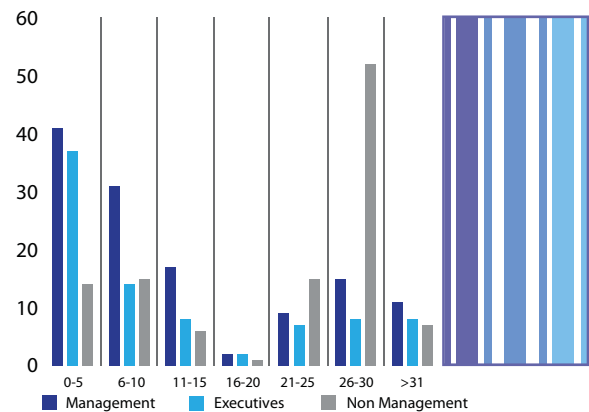
Value added per employee



Age Profile



Service Years



Our teams



**FOOD BEVERAGES AND TOBACCO INDUSTRIES EMPLOYEES' UNION (FBTIEU) - CEYLON TOBACCO COMPANY
COLOMBO BRANCH**



SECURITY UNION



**CEYLON MERCANTILE, INDUSTRIAL AND
GENERAL WORKERS' UNION (CMU)**

committed. united.



**FOOD BEVERAGES AND TOBACCO INDUSTRIES EMPLOYEES' UNION (FBTIEU) - CEYLON TOBACCO COMPANY
KANDY BRANCH**



BAROWNERS' ASSOCIATION

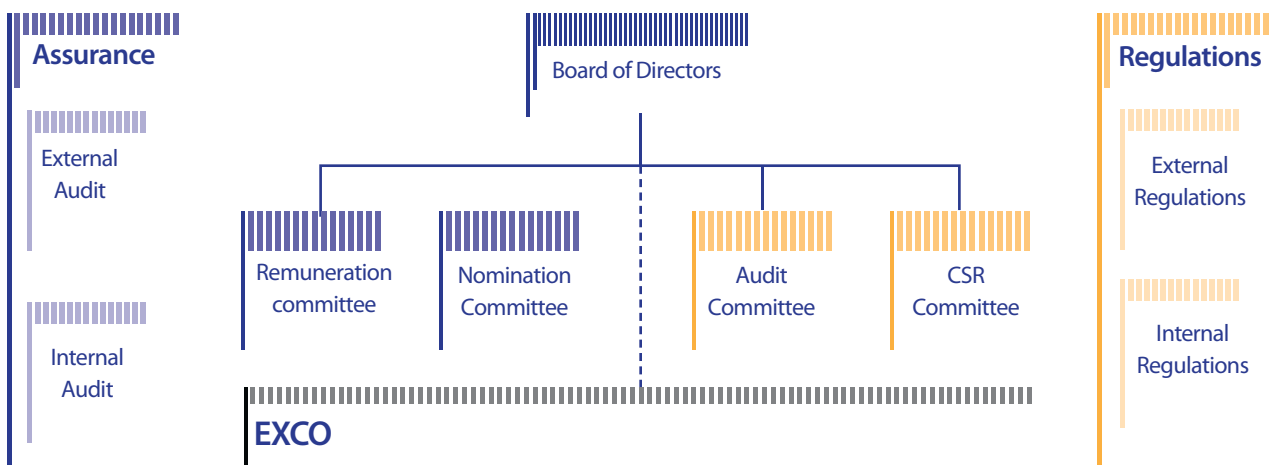


Corporate Governance

CTC considers corporate governance as an uncompromised quest to deliver assurance and comfort in fuelling sustainable future growth. Pursuing this philosophy, corporate governance is no more considered as a regulatory framework nor a yard stick, but an embraceable aspect of work-life partnering, tilted towards

a favorable balance between performance and conformance by reflecting on standards such as honesty, transparency and accountability. These aspects are clearly embedded to our Standards of Business Conduct, which are reviewed periodically to ensure that they remain at the forefront of best business practices.

THE GOVERNANCE MODEL



ROLE AND COMPOSITION OF THE BOARD:

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

The Company currently has a Board of 8 Directors; the Chairman, 2 Executive Directors - the Chief Executive Officer (—CEO) and the Finance Director - and another 5 Non Executive Directors. Their profiles appear on page 16. A balance of Executive and Non-Executive member representation on the Board ensures impartiality. Selected by the Nominations Committee that seeks, individuals with independence, capabilities, and their potential to contribute to the Company, Non-Executive Board members perform an important role in providing an external perspective to the business. Their independence enhances the objectivity of decisions. All Directors make a formal declaration of all their interests on an annual basis and 3 Non-Executive Directors have been declared by the Board as Independent Non-Executive Directors as per corporate governance best practice rule 7.10.4 of continuing listing requirements of Colombo Stock Exchange.

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

BOARD COMMITTEES:

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

Nominations Committee:

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

Audit Committee:

The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance and the conduct of business in accordance with the Company's Standards of Business Conduct - 2011 and integrity of financial statements. Please refer page 54 for the Report of Audit Committee.

Remuneration and Board Compensation Committee:

The Remuneration and Board Compensation Committee is chaired by the Chairman of the Company. The Committee determines the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors and the Executive Committee. Please refer page 56 for the Report of Remuneration and Board Compensation Committee.

CSR Committee:

The Committee is chaired by Chairman of the Company. The Committee met twice during the year. The purpose of the Committee is to review the Company's management of CSR and monitoring of alignment with the Statement of Business Principles, across the Company. Its primary focus is to be satisfied that the company's social and environmental performance is appropriate and effectively managed.

APPOINTMENTS AND RE ELECTION TO THE BOARD:

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

PERFORMANCE OF THE BOARD:

Annually, the performance of the Board members is reviewed against the recommended checklist of the Institute of Chartered Accountants of Sri Lanka. Complementing this activity is the BAT best practice, the Audit Committee Effectiveness Checklist that seeks to review the operations of the Audit Committee through a scoring mechanism against pre-established criteria. Enhancing the best practice further, the Audit Committee Chairman is required to report directly to the BAT Audit Committee, through Regional Audit Committees.

STANDARDS OF BUSINESS CONDUCT:

Operating under the guidance of Standards of Business Conduct (standards) for a number of years, the Company has embedded the

standards in to the daily functioning of the organization using clear, relevant and consistent communication channels to all employees across the organization from shop floor to the Board. Addressing areas such as whistleblowing, personal and business integrity, public contributions, corporate assets and financial integrity, national and international trade the Standards demands compliance at all levels through sign-off from each and every employee. The Whistleblowing procedure enables the staff to raise their concerns with regard to wrongdoings in the work place whilst ensuring confidentiality.

COMPLIANCE CONTROL:

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

COMPLIANCE WITH NATIONAL LAWS AND REGULATIONS:

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

RISK REVIEW & MANAGEMENT:

The risk profile of the Company is collated centrally, through sub processes of risk review with the Heads of Functions taking ownership for risk management. (This process is further explained in the section on Risk management) Each Function has a set of defined key controls, now established in the form of a checklist (Control Navigator) some of which are fundamental whilst others are of basic importance. Each Head of Function is responsible for ensuring that there is compliance against these key controls. This will be the norm or the minimum standard that must be followed by operational staff, self-assessed by senior management and independently checked by audit periodically.

The Risk and Control department conducts a program for managers and executives of the Company aiming to increase the awareness of the key principles of risk management, internal controls and corporate governance.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS

Name	Board	Audit Committee	Nominations Committee	Board Compensation Committee	CSR Committee
Mr. Jayampathi Bandaranayake *	04/04+		01/01+	01/01+	02/02+
Mr. James Yamanaka	04/04	02/02^	01/01	01/01^	02/02
Mr. Vjaya Malalasekara *	04/04				02/02
Desamanya Deva Rodrigo **	04/04	02/02+		01/01	
Mr. Susantha Ratnayake **	03/04	02/02	01/01	01/01	
Mr. Mobasher Raza *	03/04				
Mr. Ariyaratne Hewage **	03/04				02/02
Mr. Atif Hasan	04/04	02/02^			
Mr. Mark Drain *** (Retired w.e.f 20th dec 2011)		01/01			
Mr Henry Koo (appointed w.e.f. 20th Dec 2011)		01/01			
Mr. Shaiful Bahari ***					00/02

* Non Executive Director

** Independent Non Executive Director

*** Non Executive Member

+ Chairman of the Committee

^ Invitee to the Committee

CORPORATE GOVERNANCE COMPLIANCE TABLE

CSE Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Report on Corporate Governance on page 38
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Report on Corporate Governance on page 38
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Report on Corporate Governance on page 38
7.10.3(a)	Disclosure relating to Directors	<p>a. The Board shall make a determination annually as to the independence or non independence of each Non Executive Director</p> <p>b. Names of independent Directors should be disclosed in the Annual Report</p>	Compliant	<p>Report on Corporate Governance on page 38</p> <p>Section on Corporate Governance on page 38</p>
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as independent, but if the Board is of the opinion that the Director is nevertheless independent, shall specify the criteria not met and the basis for the determination in the Annual Report	Not Applicable	No such determination has been made by the Board as all three Independent Directors met the criteria as per rule 7.10.4
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Section of Board of Directors on page 16
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 page 16.
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Report of Remuneration Committee on page 56
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Report of Remuneration Committee on page 56
7.10.5(b)	Report of Remuneration Committee on page 56	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Report of Remuneration Committee on page 56
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	<p>The Annual Report should set out;</p> <p>a. Names of Directors comprising the Remuneration Committee</p> <p>b. Statement of remuneration policy</p> <p>c. Aggregate remuneration paid to Executive & Non Executive Directors</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	<p>Report on Corporate Governance on page 38</p> <p>Report of Remuneration Committee on page 56</p> <p>Note No 10 to Financial Statements</p>

CORPORATE GOVERNANCE COMPLIANCE TABLE CONTD.

CSE Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of Audit Committee on page 54
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant Compliant Compliant	Report of Audit Committee on page 54
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. (ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. (iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards. (iv) Assessment of the independence and performance of the external auditors. (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 Compliant Compliant Compliant Compliant	Report of Audit Committee on page 54
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant Compliant Compliant	Report of Audit Committee on page 54

OTHER DIRECTORSHIPS OF DIRECTORS

Name of the Director	Name of the Company	Position held
Mr. J. D. Bandaranayake	Finlays PLC Central Finance Company PLC	Director Chairman/Director
Mr James Yamanaka	CTC Services Limited	Director
Mr. V. P. Malalasekera	Carson Cumberbatch PLC Bogala Graphite Lanka PLC Ascot Holdings PLC Axis Financial Services (Pvt) Ltd Fairway Condominiums (Pvt) Ltd Boston Capital (Pvt) Limited	Director Chairman/Director Chairman/Director Chairman/Director Chairman/Director Chairman/Director
Atif Hasan	CTC Services Limited	Director
Desamanya P.D.Rodrigo	John Keells Holdings PLC (till June 2011) Stanley & Davidson Property Holdings (Pvt) Ltd Chevron Lubricants Lanka PLC Softlogic Holdings PLC	Director Director and Owner Director Director
Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mobasher Raza	Pakistan Tobacco Company Limited	Director
Ariyaratne Hewage	-	-

Finance Director's review

2011 has been a vintage year for CTC with a robust and growing economy and a positive business sentiment in the country providing just the right conditions for the businesses to prosper. CTC performance has also been exceptional in this background, leveraging these solid fundamentals along with productivity and cost control measures

The Sri Lankan economy continued to prosper despite difficult conditions which continued in the aftermath of the global economic crises. The general economic conditions were in a robust phase of growth with the delivery of post war stability benefits well and truly underway. The economy grew by a healthy circa 8% in 2011 compared to the previous year. Although the Inflation went up to a circa 7% from 6% last year, the stabilization of commodity prices and the continued influx of tourists kept the sentiment and outlook positive.

MARKET OVERVIEW

The overall prosperity and economic conditions in the country has seen the demand of consumer goods go up and this has had a trickle down effect on our industry as well with CTC registering a small growth in the year 2011. A tight control by the authorities on the illicit products has also been key in supporting this growth.

CTC continued its investments in its key brands—Dunhill & JPGL, driving value and innovation. Gold Leaf, the leading brand in the market and the portfolio performed well and further consolidated its position following the introduction of a new pack in 2010.

2011 saw the introduction of a cutting edge innovation in the Dunhill brand, with the launch of —Switch—. Sri Lanka became one of the few markets in Asia Pacific with this variant which has seen success worldwide in the markets it was launched. And Sri Lanka has been no exception with Dunhill —Switch— being received very well by the consumer.

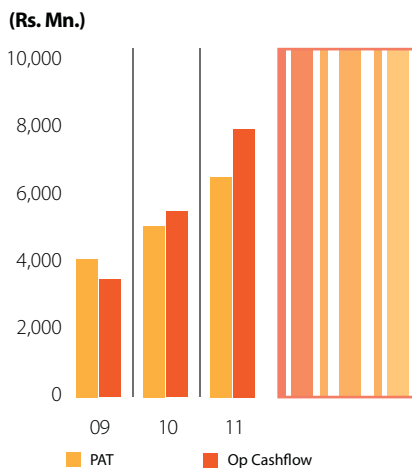
The investments in Trade Marketing and distribution focused on capability development and distribution expansion. This was done mainly in the North and East along with other areas in the Island to ensure distribution efficiency, efficacy and delivery.

GOVERNMENT REVENUE

CTC proudly continued its privileged position as a key contributor to the treasury with total collection in various taxes up to Rs66bn growing by Rs10bn versus last year, a 19% increase.

Our corporate taxes grew by 47% to Rs 4.5bn driven by higher profit and an increase in the corporate tax rate from 35% to 40%.

Financial Performance



FINANCIAL RESULTS

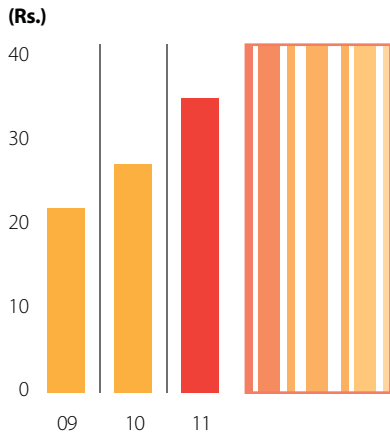
The financials for the year 2011 are reflective of the business progress made in the year. The top line grew by 20% to Rs76bn driven mainly by the excise led price increases and slightly better volumes and brand mix versus last year.

Whereas top line grew, CTC's tradition of continuous focus on productivity and cost control ensured that this growth flowed through to the bottom line. The variable cost was the main focus, with significant efforts made in the area to keep cost increases at a minimum. Overheads and other discretionary spend continued to remain under review through the year resulting controlling these cost heads at optimal levels.

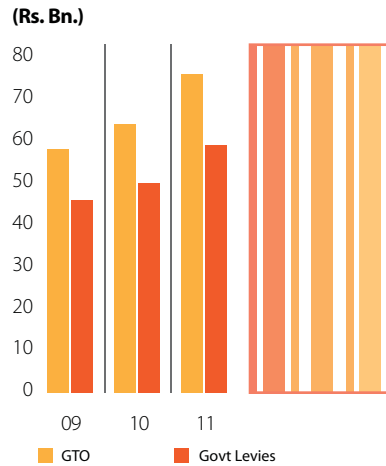
In addition, astute working capital management has resulted above 100% profit to cash conversion. The higher cash balances consequently resulted in significant increase of the interest income despite a marginal decline in the interest rates.

All the factors have combined to produce an excellent overall growth of 29% over last year in profit after tax which reached Rs6.6bn

Earnings Per Share



Government Revenue



SUSTAINABLE SHAREHOLDERS RETURN

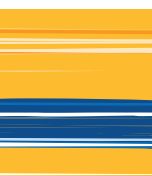
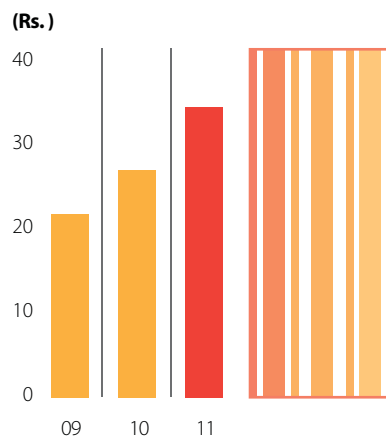
The financial performance has been adequately reflected in the share price with a capital gain of of Rs 160.62 in 2011. This was a reflection of the dividend policy which distributes all earned profits, overall quality of management and a stable outlook. With a long term record of stable share price and high dividend payout Ceylon Tobacco Company's shareholders have made a solid 44.5% return on their investments. Furthermore CTC has consistently outperformed the average stock index in the Colombo Stock exchange which reflects CTC's commitment to deliver sustainable long term shareholder value.

Based on the performance of the company the board is pleased to propose a final dividend of Rs 5.70 per share which would make the total dividends paid in 2011 to Rs.34.60 .

Atif Hasan
Finance Director

31st January 2012

Dividends Per Share



Risk Management

Business entities of today have to operate in unpredictable and unstable market places and need to be on the constant lookout in the ever dynamic micro and macro environments. Risk irrespective of its adversity or favourability has to be constantly managed if the entity needs to maintain its competitive edge in the market.

Risks arise in all our business activities and cannot be completely eliminated. The business risks are affected by a number of factors, not all of which are within the Company's control. Managing business risks is considered a vital task at CTC and it encourages all staff, not just senior management to get involved in identifying and mitigating key business risks that may arise in their respective business processes.

Enterprise risk management is globally defined as — A Process effected by an entity's Board of directors, management and other personnel, applied in strategy setting and across the entity , designed to identify and manage potential events that may affect the entity and, to provide reasonable assurance regarding the achievement of entity objectives." In tandem CTC adopts the 'British American Tobacco (BAT) Group Risk Management Framework' issued by BAT Global Audit and, the term Risk in the former is defined as —any event, situation or circumstance which, if it occurred, would adversely impact the achievement of objectives, including the failure to capitalise on opportunities". This definition, which covers events, situations or circumstances that may be caused by either internal or external factors, is in line with external best practice.

This is a basic, but formal risk management framework using standard templates and metrics. The key principles of the Group Risk Management Framework aim to embed risk management in our everyday business conduct due to its strategic importance to the business. The Company risks are managed at the most appropriate level(s) and are closely linked to real decision making and actions (budgetary and strategic) through clear ownership and accountability (of different aspects of risk management activities), thus contributing to the achievement of the Company's and Group's strategic and operational objectives.

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

RISK MANAGEMENT PROCESS

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

Board of Directors



Risk Management Committee

IMPACT	High (3)	3	6	9	
	Medium (2)	2	4	6	
	Low (1)	1	2	3	
		Low (1)	Medium (2)	High (3)	
LIKELIHOOD					
IMPACT:	LIKELIHOOD:	RISK STATUS			NEW AND DELETED RISKS
△ Increased ▽ Decreased ○ Same impact & Likelihood	△ Increased ▽ Decreased	In Place	On Track	Under Development	○ New Risk ● For deletion
		The current activities in place to manage the risk are sufficient and appropriate	Some current activities to manage the risk are in place, but further activities have been agreed and plans to implement them are on track	Current activities to manage the risk are insufficient and inappropriate OR plans to implement further activities are behind schedule	



Risk Identification

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

Assessment and Evaluation

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

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

Risk Response and Managing of Individual Risks

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

Monitoring

A corporate risk grid / risk register is maintained to facilitate effectiveness of the Risk Management process. This is updated quarterly by the Risk Management Committee. The monitoring of risk management at CTC is performed via reviews of the key risks and their risk response by the Executive Committee and by the Audit Committee.

Key foreseeable risks faced by the Company are;

Illicit Trade

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

Excise and Taxes

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

Regulations

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

Increased cost base

In an environment of declining volumes and increasing costs, CTC focuses on specific productivity initiatives and cost savings programs as a major enabler for value growth.

CRISIS MANAGEMENT AND BUSINESS CONTINUITY PLANS (BCPS)

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

TESTING OF BUSINESS CONTINUITY PLANS

In the beginning of the year, key BCPs to be tested are identified and the status of BCP testing is monitored by RMC. Key learnings of the testing are discussed in the RMC and reported to the Audit Committee.

RISK MANAGEMENT AND INTERNAL AUDIT

Business Audit Methodology, which is the internal audit methodology adopted by the Group draws a clear link between risk management and internal audit. The internal audit plan is derived using the risk register of the Company mainly focusing on the processes linked to high risk areas. The controls to mitigate the key risks are audited giving assurance to the management and to the Board that the 'key controls' are in place.

Statement of Internal Controls

The Board of Directors has overall responsibility for the Company's system of internal controls and for reviewing the effectiveness of it. The Board has established the tone from the top and ensures that importance of internal controls is understood and the correct resource allocations are made.

CTC has created the culture for better control environment through application of the business principles, namely mutual benefit, responsible product stewardship and good corporate governance, which defines the way the business is run. These are further supported by the guiding principles, which guide the way we work, of Strength from Diversity, Open Minded, Freedom through responsibility and Enterprising Spirit which collectively express the culture and framework in building the right control environment that currently exists.

To be effective internal control must:

- Be embedded within the organisation
- Be capable of responding to change
- Provide for immediate reports of major weaknesses

Control activities include a comprehensive list of policies and procedures which ensures that the management directives are carried out and the necessary actions are taken to minimise the risk of failing to meet objectives. The policies and procedures are established throughout the organisation and continuously reviewed for adequacy and improvement. The framework is designed to provide reasonable assurance of:

- Efficiency and effectiveness of operations
- The assets of the Company are protected against unauthorized use or disposition
- Reliability of financial and other management information
- The prevention of fraud
- Compliance with relevant national laws and company regulations

Within this framework, each Head of Function has the responsibility for establishing and operating detailed control procedures within their functions. A checklist of Key Controls (Control Navigator) is available for each department. This checklist provides fundamental controls that are essential to be maintained in each department.

The principal components of the Company's system of internal control are as follows:

- The management identifies key risks facing the business on an ongoing basis and determines the appropriate control response, with the results being reviewed by the Executive Committee.
- The internal control system is monitored by the Risk and Control department, which provides a reasonable assurance that the operational/ financial controls and procedures were effectively & consistently followed. Further it assesses management action in dealing with control issues. However there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. The Risk and Control department reports to the Audit Committee of CTC as well as to the South Asia Area Audit Manager.
- A Company plan, covering a two year time span is developed and approved by the Board. A detailed annual budget is also prepared. Targets are set for key finance and non-finance factors that are critical to achieve the plan. The performance is monitored against the target, the previous year and other benchmarks through monthly and quarterly reporting regimes.
- Business oriented, appropriate authorization processes enables the Board to exercise better control over the strategic, financial, investment and organizational issues.
- The Company presents the financial results to its shareholders on a quarterly basis.

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The Audit Committee, whose functions are described in the Corporate Governance Statement and the Report of the Audit Committee, met twice during 2011. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attended all Audit Committee meetings. The External Audit Strategy Memorandum and audit

issues on completion of statutory audit are presented at these meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they comply with the policy statement on internal controls. These best practices were complied with during the year 2011.

The Corporate and Regulatory Affairs Department ensures that the Company is in compliance with the rules and communication requirements of Securities and Exchange Commission.



James Yamanaka
Managing Director & Chief Executive Officer



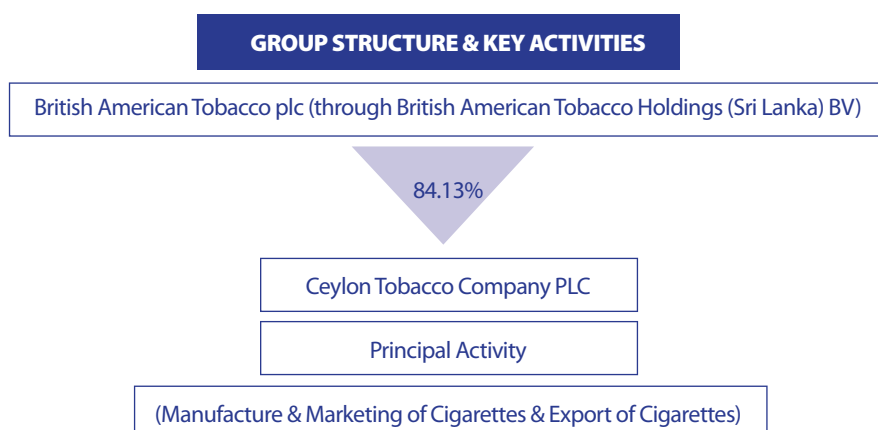
Atif Hasan
Finance Director

31st January 2012



Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31st December 2011, together with the Audited Consolidated Financial Statements of the Company and for the Group.



Subsidiaries

CTC Services Limited

Going Concern

REVIEW OF THE YEAR

The Chairman's Statement, Chief Executive Officer's Review, Management Discussion & Analysis, and Finance Director's Review together with the financial statements highlight the Group's performance for the year under review and state of affairs as at 31st December 2011.

GROUP RESULTS FOR THE YEAR 2011 & APPROPRIATIONS

	Rs.000's	Rs.000's	Rs.000's
Retained profit as at 1st January 2011			1,765,893
Current year's profit after charging all expenses and providing for all known liabilities		6,568,831	

Dividends

Dividends of Rs. 36.12 per share declared on the Issued Share Capital of 187,323,751 shares

2010 Final Dividend	- Rs. 7.22 per share paid on 07/04/11
First Interim dividend	- Rs. 4.20 per share paid on 20/05/11
Second Interim dividend	- Rs. 9.70 per share paid on 16/08/11
Third Interim dividend	- Rs. 10.50 per share paid on 29/11/11
Fourth Interim dividend	- Rs. 4.50 per share paid on 20/01/12

Net dividend	6,089,518		
Dividend Tax	676,616	(6,766,134)	(197,303)
Write back of unclaimed dividends			2,479
Transfer of Capital Reserves			15,000
Gratuity Asset			105,118
Balance carried forward to 2012			1,691,187

Interim dividends of Rs. 4,571 million have been paid from current year company profits after tax of Rs. 6,569 million.

The directors recommend the payment of a final dividend from current year company profits of Rs. 5.70 per share less tax for 2011 subject to approval by the Shareholders at the forthcoming Annual General Meeting on 03rd April 2012. The final dividend recommended for this financial year has not been recognised as a liability at the balance sheet date in conformity with Sri Lanka Accounting Standard 12- Events after the Balance Sheet Date.

CAPITAL EXPENDITURE

The Group capitalised a sum of Rs. 247 million in Property Plant & Equipment in its modernisation program. The movements in Property, Plant & Equipment for the year are shown in Note 14 to the financial statements.

DONATIONS

Included in the current years result is a sum of Rs. 17 million on Corporate Social Responsibility activities.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

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

MARKET STATISTICS - (as at 31st December)

	2011	2010	Growth %
• No of Shares	187,323,751	187,323,751	-
• Earnings per share-Rs.	35.07	27.21	28.9
• Net assets per share-Rs.	19.03	19.51	-2.5
• Market price per share-Rs.	490.10	355.00	38.1
• Price earnings ratio	13.97	13.05	7.0
• Dividends per share*-Rs.	34.60	27.17	27.3
• Dividend yield %	7.06	7.65	-7.8

* DPS of Rs.34.60 is the total Dividends applicable for 2011 Profits only. (Four Interim Dividends & the Final Dividend of 2011)

DIRECTORATE

The names of the Directors are disclosed in Page 14 of the Annual Report

Vijaya Prasanna Malalasekera a Non Executive Director since August 2005 retires from the Board of Directors at the conclusion of the Annual General Meeting on 3rd April 2012 and will not offer himself for re-election.

DIRECTORS PROPOSED FOR RE-ELECTION

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

In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9th November 2009) and Desamanya Parakrama Devasiri Rodrigo (who attained the age of 65 years on 14 July 2010) retire at the conclusion of the Annual General Meeting, but seek re-election as Directors of the Company notwithstanding their age.

In terms of notices dated 05 January 2012 received from the British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage and Desamanya Parakrama Devasiri Rodrigo and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage and Desamanya Parakrama Devasiri Rodrigo.

DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS

Directors' interests in contracts and related party transactions are disclosed in Note 26 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 or with the Group.

DIRECTORS' SHAREHOLDING

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

31st December	2011	2010
J.D. Bandaranayake	217,435	178,335
V.P. Malalasekera	7,564	7,564
Susantha Ratnayake	644	644
Total	225,643	186,543

No Director other than those disclosed above has any shareholding.

FUTURE DEVELOPMENTS

The business outlook and trends are covered in the Chairman's statement and the Chief Executive Officer's Review.

RESERVES

Total Group reserves as at 31st December 2011 amount to Rs. 1,691 which is in the nature of revenue reserves. Movements are shown in the Statement of Changes in Equity in the Financial Statements.

These do not include the final dividend of Rs.1,067 million, which is to be declared and paid after the balance sheet date.

MAJOR SHAREHOLDINGS

The 20 major shareholders and percentage of holdings are disclosed on page 87.

EMPLOYEE SHARE OWNERSHIP PLANS

The Group has no share ownership plans as at 31st December 2011. The details of employee share option scheme of BAT group are explained in note 27 of the financial statements.

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 directors are of the opinion that the company is a going concern. Accordingly the Financial Statements are prepared on a going concern basis.

COMPLIANCE WITH REGULATIONS

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

GROUP AUDITORS

The company has proposed the change of the statutory auditors to be in line with the Group's (British American Tobacco plc) requirements, to move to their group auditor. In view of the same KPMG has agreed not to present itself for re-election at the forthcoming AGM; consequently a resolution will be submitted at the meeting, proposing Messrs PricewaterhouseCoopers, Chartered accountants, to be appointed as auditors of the Company for the financial year ending 31st December 2012.



James Yamanaka
Managing Director &
Chief Executive Officer



Atif Hasan
Finance Director

31st January 2012

Statement of Directors' responsibilities

The responsibility of the Directors, in relation to the financial statements, is set out in the following statement. The responsibility of the auditors, in relation to the financial statements, is set out in the Independent Auditors Report.

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

- i. A Balance Sheet, which presents a true and fair view of the state of affairs of the Company and its subsidiary as at the end of the financial year, and which comply with the requirements of the Act; and
- ii. An Income Statement, which presents a true and fair view of the profit and loss of the Company and its subsidiary for the financial year.

The Directors are required to ensure that, in preparing these financial statements:

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

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

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

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

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

The financial statements were audited by Messrs KPMG Ford, Rhodes, Thornton & Company Chartered Accountants, the independent external auditors.

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

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

COMPLIANCE REPORT

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company and its subsidiaries, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and its subsidiaries, and all other known statutory dues as were due and payable by the Company and its subsidiaries as at the balance sheet date have been paid or, where relevant provided for, except as specified in Note 29 to the financial statements covering contingent liabilities.



James Yamanaka
Managing Director &
Chief Executive Officer



Atif Hasan
Finance Director

31st January 2012

Report of the Audit Committee

THE ROLE OF THE AUDIT COMMITTEE

The role of the Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance report on pages from 38 to 43.

COMPOSITION OF THE AUDIT COMMITTEE

The composition of the Audit Committee (—the Committee) remained at three with two Independent Non-Executive Directors and a Director of a BAT Subsidiary overseas who is independent of executive functions of CTC. The Chairman of the Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka and former senior partner of PricewaterhouseCoopers, Sri Lanka.

The members of the Audit Committee as at 31st December 2011, who held office during the whole of the year, were;

Desamanya Deva Rodrigo,
Mr. Susantha Ratnayake

Mr. Mark Drain who was a member, resigned on 20th of December 2011 and Mr. Henry Koo was appointed in his place with effect from that date.

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

TERMS OF REFERENCE

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

1. **Financial Statements**
Monitor the integrity of the financial statements of the Company, and of any formal announcements relating to the Company's performance. Review significant assertions made by the management in preparing financial statements.
2. **Internal Control and Business Risks**
Review the effectiveness of the internal controls over financial reporting, compliance with legal and regulatory requirements and business risk systems of the Company.
3. **Internal Audit**
Evaluate the adequacy of the internal audit plan, monitor and review the effectiveness of the internal audit service provided and the impact of matters reported by the internal audit.
4. **External Audit**
Evaluate performance of the external auditors, ensure their independence and objectivity, approve the terms of engagement and recommend the level of audit fees for approval by the Board of Directors.

MEETINGS

The Committee met two times during the year. Attendance by the committee members at each of these meetings is given in the table on page 40 of the annual report. All the invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

ACTIVITIES

The Committee carried out the following activities:

MANAGING RISKS

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

INTERNAL AUDIT

The Committee approved the internal audit plan for 2011 at the beginning of the year and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored. Also the resource requirements and the succession plans of internal audit department were reviewed.

INTERNAL CONTROLS

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

EXTERNAL AUDIT

The Committee reviewed and approved the external audit strategy for 2011 including the audit scope.

The Management Letter issued by the External Auditors to report matters which arose during the course of their audit and the management response thereto was reviewed and implementation of their recommendations was monitored by the Committee. The letter of representation issued to the external Auditor was also examined by the Committee to ensure that the representations made to the external auditor were consistent with the understanding the committee has of the company's operations and plans.

Audit committee also reviewed the fees payable, Non Audit services provided and the independence monitoring procedures of the auditor.

APPOINTMENT OF GROUP AUDITORS

To be in line with the Group's (British American Tobacco plc) requirements to move to their Group auditor, the Committee had recommended to the board of directors that Messrs PricewaterhouseCoopers, Chartered Accountants be appointed as the external auditor of the Company

FINANCIAL REPORTING

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

GOOD GOVERNANCE

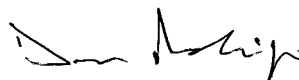
A Statement of Business Conduct (SOBC) is submitted each year by management to the Group, to identify and report incidents of non-compliance and whistle blowing. The Committee was satisfied that all occurrences of whistle blowing incidents have been investigated, action taken where necessary and that non of them has adversely affected —Good Governance~ policies and status of the Company. The Committee also reviewed the Loss Reports and regularly monitored compliance with laws and regulations.

AUDIT COMMITTEE EFFECTIVENESS

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

APPRECIATION

The audit committee reviewed the effectiveness of the external auditor. Committee noted that the audit was carried out in an efficient and effective manner and the committee was very satisfied with KPMG Ford Rhodes Thornton & Co, the outgoing auditor.



Desamanya Deva Rodrigo
Chairman,
Audit Committee.

31st January 2012

Members

Susantha Ratnayake, Henry Koo

Remuneration and Board Compensation Committee Report

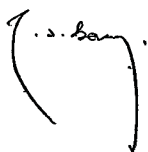
The purpose of The Board Compensation Committee of Ceylon Tobacco Company is to take independent, objective and defensible decisions on all matters associated with the total reward package and other terms of service of the managers & executives so that remuneration policy at all times constitutes a competitive advantage in terms of attracting and retaining top quality management.

The scope of the committee includes the following:

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

The Board Compensation Committee met on one occasion during the year 2011 to review the salary survey, market positioning, market anchor movements and the salary increments and methodology.

In reviewing the above the main focus was laid on ensuring that adequate, emphasis was placed on pay for performance & retaining the high potential employees and the line managers of functions were given more responsibility in deciding the distribution of the increments within their functions.



Jayampathi Bandaranayake
*Chairman,
Board Compensation Committee,*

31st January 2012

Independent Auditors' Report



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

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Fax : +94 - 11 244 5872
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Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC (the —Company—), the consolidated financial statements of the Company and its subsidiary as at 31st December 2011 which comprise the balance sheet as at 31st December 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 60 to 84 of this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December 2011 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiary dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS
Colombo, Sri Lanka.

31st January 2012

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA

Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

FINANCIAL STATEMENTS

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we deliver.

FINANCIAL STATEMENTS

Income Statement

For the year ended 31st December	Note	Group		Company	
		2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Gross revenue	8	76,150,556	63,523,824	76,150,556	63,523,824
Government levies	8	(59,127,137)	(49,902,112)	(59,127,137)	(49,902,112)
Net revenue	8	17,023,419	13,621,712	17,023,419	13,621,712
Other operating income	9	48,662	36,323	48,662	36,323
Raw materials used		(2,405,104)	(2,278,996)	(2,405,104)	(2,278,996)
Employee benefits expenses	10.1	(1,187,164)	(1,030,468)	(1,187,164)	(1,030,468)
Depreciation and amortisation expenses		(195,933)	(197,293)	(195,933)	(197,293)
Other operating expenses		(2,551,621)	(2,214,118)	(2,551,614)	(2,214,116)
Net interest income	11	379,772	260,141	379,772	260,141
Profit before income tax	10	11,112,031	8,197,301	11,112,038	8,197,303
Income tax expense	12	(4,543,200)	(3,100,199)	(4,543,200)	(3,100,199)
Profit for the year		6,568,831	5,097,102	6,568,838	5,097,104
Attributable to					
Equity holders		6,568,831	5,097,102		
Minority		-	-		
Profit for the year		6,568,831	5,097,102		
Basic earnings per share (Rs.)	13	35.07	27.21	35.07	27.21

The above income statement is to be read in conjunction with Notes to the financial statements on pages 64 to 84.

Balance Sheet

As at 31st December	Note	Group		Company	
		2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Assets					
Non-current assets					
Property, plant and equipment	14	1,552,636	1,564,738	1,552,636	1,564,738
Intangible assets	15	6,396	12,314	6,396	12,314
Investments in subsidiary	16	-	-	500	500
Net surplus asset on retirement benefit plan	21	105,119	-	105,119	-
Receivables	17.1	159,184	178,127	159,184	178,127
Total non-current assets		1,823,335	1,755,179	1,823,835	1,755,679
Current assets					
Inventories	18	2,202,270	2,561,866	2,202,270	2,561,866
Trade and other receivables	17.2	1,945,872	1,334,607	1,947,852	1,336,472
Cash and cash equivalents	19	7,790,014	6,633,408	7,789,426	6,632,928
Total current assets		11,938,156	10,529,881	11,939,548	10,531,266
Total assets		13,761,491	12,285,060	13,763,383	12,286,945
Equity and liabilities					
Equity					
Stated capital	20	1,873,238	1,873,238	1,873,238	1,873,238
Capital reserves		-	15,000	-	15,000
Retained earnings		1,691,187	1,765,893	1,693,079	1,767,778
Total equity attributable to equity holders		3,564,425	3,654,131	3,566,317	3,656,016
Non-current liabilities					
Employee benefits	21	3,019	4,258	3,019	4,258
Deferred tax liabilities	22	254,906	199,940	254,906	199,940
Total non-current liabilities		257,925	204,198	257,925	204,198
Current liabilities					
Trade and other payables	23	5,709,959	5,413,660	5,709,959	5,413,660
Current taxation	24	3,333,575	1,870,497	3,333,575	1,870,497
Dividends payable	25	842,957	1,077,111	842,957	1,077,111
Unclaimed dividends	25.2	52,650	57,608	52,650	57,608
Bank overdraft	19	-	7,855	-	7,855
Total current liabilities		9,939,141	8,426,731	9,939,141	8,426,731
Total liabilities		10,197,066	8,630,929	10,197,066	8,630,929
Total equity and liabilities		13,761,491	12,285,060	13,763,383	12,286,945
Net assets per share		19.03	19.51	19.04	19.52

The above balance sheet is to be read in conjunction with Notes to the financial statements on pages 64 to 84.

I certify that the financial statements are in compliance with the requirements of Companies Act No. 7 of 2007.



Atif Hasan
Finance Director

On behalf of the Board of Directors,



James Yamanaka
Managing Director & Chief Executive Officer
Colombo
31st January 2012



Atif Hasan
Finance Director

Cash Flow Statement

For the year ended 31st December	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Cash flows from operating activities				
Cash generated from operations (refer A)	11,024,814	8,015,544	11,024,705	8,015,376
Interest paid	(1,968)	(3,908)	(1,968)	(3,908)
Income taxes paid	(3,025,156)	(2,472,640)	(3,025,156)	(2,472,640)
Retiring gratuity paid	(1,239)	(951)	(1,239)	(951)
Net cash from operating activities	7,996,451	5,538,045	7,996,342	5,537,877
Cash flows from investing activities				
Purchase of Property, Plant and Equipment	(217,616)	(223,378)	(217,616)	(223,378)
Purchase of intangible assets	-	(807)	-	(807)
Proceeds from disposal of Property, Plant and Equipment	3,992	2,506	3,992	2,506
Interest received	384,400	266,568	384,400	266,568
Net cash from investing activities	170,776	44,889	170,776	44,889
Cash flows from financing activities				
Dividends paid	(7,002,766)	(4,702,862)	(7,002,766)	(4,702,862)
Net cash used in financing activities	(7,002,766)	(4,702,862)	(7,002,766)	(4,702,862)
Net increase in cash and cash equivalents	1,164,461	880,072	1,164,353	879,904
Cash and cash equivalents at the beginning of the year	6,625,553	5,745,481	6,625,073	5,745,169
Cash and cash equivalents at the end of the year (Note 19)	7,790,014	6,625,553	7,789,426	6,625,073
A. Cash generated from operations				
Profit before income tax	11,112,031	8,197,301	11,112,038	8,197,303
Depreciation expenses	190,015	188,417	190,015	188,417
Amortisation expenses	5,918	8,876	5,918	8,876
Interest income	(381,739)	(264,049)	(381,739)	(264,049)
Interest expense	1,968	3,908	1,968	3,908
Property, Plant and Equipment write off	39,398	1,814	39,398	1,814
Provision for obsolete inventories and doubtful debts	21,781	13,738	21,781	13,738
Profit on disposal of Property, Plant and Equipment	(3,687)	(2,484)	(3,687)	(2,484)
Operating profit before working capital changes	10,985,685	8,147,521	10,985,692	8,147,523
Decrease/ (Increase) in inventories	348,887	(242,644)	348,887	(242,644)
Increase in trade and other receivables	(606,056)	(400,365)	(606,173)	(400,535)
Increase in trade and other payables	296,298	511,032	296,299	511,032
	11,024,814	8,015,544	11,024,705	8,015,376

The above cash flow statement is to be read in conjunction with Notes to the financial statements on pages 64 to 84.

Statement of Changes in Equity

	Note	Stated Capital	Capital Reserve	Retained Earnings	Total
Group (Rs. '000s)					
Balance as at 1st January 2010		1,873,238	15,000	1,471,103	3,359,341
Profit for the year		-	-	5,097,102	5,097,102
Final dividend 2009	25.1	-	-	(1,067,745)	(1,067,745)
Interim dividend 2010	25.1	-	-	(3,737,109)	(3,737,109)
Write back of unclaimed dividends	25.2	-	-	2,541	2,541
Balance as at 31st December 2010		1,873,238	15,000	1,765,893	3,654,131
Profit for the year		-	-	6,568,831	6,568,831
Transferred to Retained earnings		-	(15,000)	15,000	-
Net Surplus asset on retirement benefit plan	21	-	-	105,119	105,119
Final dividend 2010	25.1	-	-	(1,352,477)	(1,352,477)
Interim dividend 2011	25.1	-	-	(5,413,657)	(5,413,657)
Write back of unclaimed dividends	25.2	-	-	2,479	2,479
Balance as at 31st December 2011		1,873,238	-	1,691,187	3,564,425

	Note	Stated Capital	Capital Reserve	Retained Earnings	Total
Company (Rs'000s)					
Balance as at 1st January 2010		1,873,238	15,000	1,472,986	3,361,224
Profit for the year		-	-	5,097,104	5,097,104
Final dividend 2009	25.1	-	-	(1,067,745)	(1,067,745)
Interim dividend 2010	25.1	-	-	(3,737,109)	(3,737,109)
Write back of unclaimed dividends	25.2	-	-	2,541	2,541
Balance as at 31st December 2010		1,873,238	15,000	1,767,778	3,656,016
Profit for the year		-	-	6,568,838	6,568,838
Transferred to Retained earnings		-	(15,000)	15,000	-
Net Surplus asset on retirement benefit plan	21	-	-	105,119	105,119
Final dividend 2010	25.1	-	-	(1,352,477)	(1,352,477)
Interim dividend 2011	25.1	-	-	(5,413,657)	(5,413,657)
Write back of unclaimed dividends	25.2	-	-	2,479	2,479
Balance as at 31st December 2011		1,873,238	-	1,693,079	3,566,317

The above statement of changes in equity is to be read in conjunction with Notes to the financial statements on pages 64 to 84.

Notes to the financial statements

1 REPORTING ENTITY

Ceylon Tobacco Company PLC is a public quoted company domiciled in Sri Lanka. The consolidated financial statements of the Company for the year ended 31st December 2011 comprises of the Company and its subsidiary (together referred to as the Group). The ultimate holding company is British American Tobacco plc.

There were no significant changes in the nature of principal activities of the Company and the Group during the financial year under review.

1.1 SUBSIDIARY

CTC Services Limited

Currently no commercial operations are carried out by this company.

1.2 OUTREACH PROJECTS (GUARANTEE) LTD

Ceylon Tobacco Company PLC incorporated the above company on 26th December 2007, of which liability is limited to a personal guarantee of Rs.100 for each Board Member, in order to carry out corporate social responsibility activities of Ceylon Tobacco Company PLC.

This Company is not consolidated as it is not controlled by Ceylon Tobacco Company PLC.

2 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

The financial statements of Ceylon Tobacco Company PLC and its subsidiary have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS) as laid down by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 7 of 2007.

2.2 APPROVAL OF THE FINANCIAL STATEMENTS BY THE DIRECTORS

The financial statements were authorised for issue by the Board of Directors on 31st January 2012.

3 BASIS OF MEASUREMENT

The financial statements are prepared on the historical cost basis. No adjustments have been made for inflationary factors affecting the financial statements.

3.1 FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are presented in Sri Lankan Rupees, which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

4 USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with SLAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant effect on the amounts recognised in the financial statements are described in Notes 4.1 to 4.2.

4.1 ASSESSMENT OF IMPAIRMENT

The Company assesses at each balance sheet date whether there is objective evidence that an asset or Cash Generating Unit (CGU) is impaired. The recoverable amount of an asset or Cash Generating Unit is the greater of its value in use and its fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks specific to the asset or CGU.

4.2 EMPLOYEE BENEFITS

The liability as at the balance sheet date was actuarially valued based on the assumptions set out in Note 21.2.

5 COMPARATIVE INFORMATION

Comparative information has been reclassified, wherever necessary, to conform to the current year's presentation and classification.

6 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities.

6.1 BASIS OF CONSOLIDATION

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of that entity so as to obtain benefits from its activities. In

assessing control, potential voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains from the intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

All the companies in the Group have a common financial year, which ends on 31st December.

6.2 FOREIGN CURRENCY TRANSLATION

Transactions in foreign currency are translated to rupees at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to rupees at the exchange rate ruling at that date. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognised in the income statement.

ASSETS AND BASES OF THEIR VALUATION

6.3 PROPERTY, PLANT AND EQUIPMENT

6.3.1 Recognition and measurement

Items of Property, Plant & Equipment are stated at cost of purchase less accumulated depreciation (refer note 6.3.3) and any accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset. When parts of an item of Property, Plant & Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant & Equipment.

Buildings constructed by the Company on leasehold land are capitalised and included under the category of leasehold buildings.

6.3.2 Subsequent costs

The cost of replacing a component of an item of Property, Plant and Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the

day-to-day servicing of Property, Plant and Equipment are recognised in the income statement as incurred.

6.3.3 Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each component of an item of Property, Plant & Equipment. Freehold land is not depreciated. The depreciation rates used are as follows:

	Depreciation %	Residual value %
Freehold buildings	2½	2½
Leasehold buildings	over the lease period	-
Building improvements	10	-
Plant & machinery	7	-
Furniture, fittings & canteen equipment	20	10
Office equipment & House equipment	20	10
IT equipment	33 1/3	-
Vehicles & accessories	25	10
Lab equipment	10	-
Canteen equipment	10	10
Agricultural equipment	100	-

Property, Plant and Equipment are depreciated from the month of purchase up to the month of disposal.

6.4 INTANGIBLE ASSETS

6.4.1 Recognition and measurement

All computer software development and purchase costs incurred by the Company that is not integral to the functionality of the related equipment, and can be, clearly identified, measured reliably and future economic benefits are probable, are included in the balance sheet under the category Intangible Assets and carried at cost less accumulated amortisation and accumulated impairment losses.

6.4.2 Subsequent expenditure

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 expensed as incurred.

6.4.3 Amortisation

Amortisation is recognised in the income statement on a straight line basis over the estimated useful life of intangible assets, from the date they are available for use. The amortisation rate is as follows:

Computer Software 33 1/3%

6.5 INVESTMENTS

Investment in Subsidiary

Investments in subsidiaries are treated as long term investments and are carried at cost. Provision for impairment is made when in the opinion of the Directors there has been a decline in the carrying amount of the investment, which is other than temporary.

6.6 TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at their cost less provision for bad and doubtful debts.

6.7 INVENTORIES

Inventories are measured 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. Cost has been arrived at using the weighted average method. 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 consist of only the raw materials in progress. The values of finished goods reflect the cost of manufacture, and all other stocks are included under the category of consumables. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

6.8 CASH & CASH EQUIVALENTS

Cash & cash equivalents comprise of cash balances, call deposits and short term investments with a maturity period less than 3 months. For the purpose of the cash flow statement, cash & cash equivalents are presented net of bank overdrafts.

6.9 IMPAIRMENT

The carrying amounts of the Group are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any, such indication exists the recoverable amount of the asset is estimated. An impairment loss is recognised if the carrying amount of an asset or its related Cash-Generating Unit (CGU) exceeds the recoverable amount. Impairment losses are recognised in the income statement.

LIABILITIES AND PROVISIONS

6.10 DIVIDENDS

Dividends are recognised as a liability in the period in which they are declared and approved for distribution.

6.11 EMPLOYEE BENEFITS

6.11.1 Defined benefit plan - Retirement Gratuity

As required by the Sri Lanka Accounting Standards 16 (Revised 2006) - Employee Benefits (—SLAS 16), the Company (the subsidiary does not have employees) applies the actuarial valuation method to contribute for Retirement Gratuity and has funded by way of insurance policy for retirement gratuities based on Projected Unit Credit method as recommended by SLAS 16.

The amount recognised as a defined benefit liability shall be the net total of the present value of the defined benefit obligation at the end of the reporting period, plus any actuarial gains not recognised minus any past service cost not yet recognised and the fair value at the end of the reporting period of plan asset.

When the above computation results in an asset, the recognised asset is limited to the net total of any cumulative unrecognised actuarial losses and past service costs and the present value of any economic benefits available in the form of any refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan in the Group. An economic benefit is available to the Group if it is realisable during the life of the plan or on settlement of the plan liabilities.

In respect of any actuarial gains and losses arising from actuarial valuation that arise in calculating the Company's obligation in respect of employee benefits, to the extent that any cumulative unrecognised gain or loss exceeds the greater of 10% of the defined benefit obligation as at balance sheet date or 10% of fair value of plan assets as at that date, that portion is recognised in income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the gain or loss is not recognised.

6.11.2 *Defined Contribution Plans* Employees' Provident Fund and Employees' Trust Fund

All employees who are eligible for Provident Fund Contributions and Trust Fund Contributions are covered by relevant contribution funds in line with the respective statutes. Employer's contributions to the defined contributions to the defined contribution plans are recognised as an expense in the Income Statement when incurred.

6.12 PROVISION

A provision is recognised in the balance sheet if a result of a past event, the Group has a present legal or a constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

INCOME STATEMENT

6.13 REVENUE

6.13.1 *Goods Sold and Services Rendered*

Revenue from sale of goods is recognised in the income statements when the significant risks and rewards of ownership have been transferred to the buyer. Revenue for services rendered is recognised in the income statement in the period to which they relate. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, associated cost or the possible return of goods.

6.13.2 *Interest Income*

Interest income is derived from short-term investments and is recognised on an accrual basis.

6.14 EXPENSES

6.14.1 *Operating Lease Payments*

Payments made under operating leases are recognised in the income statements on a straight-line basis over the lease period.

6.14.2 *Interest and Other Expense*

Interest payable and other expenses are recognised on an accrual basis.

6.15 INCOME TAX EXPENSE

Income tax expense comprises of current and deferred tax. Current and deferred tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

6.15.1 CURRENT TAX

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit before income tax adjusted to arrive at the taxable profit in accordance with the Inland Revenue Act No. 10 of 2006 and amendments thereto.

6.15.2 DEFERRED TAX

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied for temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets, including those related to tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

6.16 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products and services within a particular economic environment (geographical segment), which is subject to risks and returns different from those of other business segments. For the purposes of segment reporting disclosures, the information is presented in respect of the Group's business segments, which is based on the Group's management and internal reporting structure (Note 31).

6.17 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares.

6.18 RELATED PARTY TRANSACTIONS

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is charged.

6.19 CASH FLOW STATEMENT

Cash flow statement has been prepared using the Indirect Method. Interest paid is treated as part of the operating activities.

PRESENTATION

Assets and liabilities are grouped by nature and listed in an order that is prescribed by the Sri Lanka Accounting Standards. Where appropriate, the significant accounting policies are disclosed in the proceeding Notes.

6.20 OFFSETTING INCOME AND EXPENSES

Income and expenses are not offset unless required or permitted by accounting standards.

6.21 OFFSETTING ASSETS AND LIABILITIES

Assets and liabilities are offset and the net amount is reported in the Balance Sheet only where there is:

- a current enforceable legal right to offset the asset and Liability; and
- an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

6.22 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date the Financial Statements are authorized for issue.

All material and important events that occurred after the Balance Sheet date, including the final dividend declared on Ordinary Shares have been considered and appropriate Disclosures are made in Note 32 to the Financial Statements.

7 NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT BALANCE SHEET DATE

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st December 2011.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company has evaluated the potential effects on its financial statements on adoption of LKAS/SLFRS, and based on the management's assessment the impact on the financial statements on the adoption of these Standards will not be material.

8 NET REVENUE

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Local revenue	76,106,311	63,475,104	76,106,311	63,475,104
Export revenue	44,245	48,720	44,245	48,720
Gross revenue	76,150,556	63,523,824	76,150,556	63,523,824
Government levies*				
- Excise special provision tax	50,265,664	42,070,677	50,265,664	42,070,677
- Tobacco tax	34,815	31,811	34,815	31,811
- Social responsibility levy	-	559,276	-	559,276
- Value added tax	8,439,987	6,813,022	8,439,987	6,813,022
- Turnover tax	33	191	33	191
- Nation building levy	386,638	427,135	386,638	427,135
Total Government levies	59,127,137	49,902,112	59,127,137	49,902,112
Net revenue	17,023,419	13,621,712	17,023,419	13,621,712

*These taxes and levies have been collected at the point of sale and paid to the Government.

9 OTHER OPERATING INCOME

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Profit on disposal of Property, Plant & Equipment	3,687	2,484	3,687	2,484
Sundry sales/ gains	44,975	33,839	44,975	33,839
	48,662	36,323	48,662	36,323

10 PROFIT BEFORE INCOME TAX IS STATED AFTER CHARGING ALL THE EXPENSES INCLUDING THE FOLLOWING:

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Depreciation expenses	190,015	188,417	190,015	188,417
Amortisation expenses	5,918	8,876	5,918	8,876
Non - Executive Directors' fees	10,730	9,661	10,730	9,661
Auditors' remuneration				
(a) Audit fee and expenses	3,052	2,880	3,042	2,880
(b) Audit related services fee and expenses	560	618	560	618
(c) Non audit services	2,983	2,234	2,983	2,234
Legal fees	50,205	14,265	50,205	14,265
Administrative expenses	621,174	555,928	621,174	555,928
Donations and CSR expenses	16,611	20,319	16,611	20,319
Technical and Advisory fees	503,163	283,378	503,163	283,378
Property, Plant and Equipment write off	39,398	1,814	39,398	1,814
Provision for obsolete inventories	10,708	5,329	10,708	5,329
Provision for doubtful debts	11,074	8,409	11,074	8,409
Employee benefits expenses (Note 10.1)	1,187,164	1,030,468	1,187,164	1,030,468
10.1 Employee benefits expenses				
Executive Directors' emoluments	80,169	75,598	80,169	75,598
Salaries and wages	958,253	836,854	958,253	836,854
Gratuity contribution*	-	-	-	-
Provision for Voluntary Separation Scheme	80,414	49,269	80,414	49,269
Contribution to Employees' Provident Fund	56,861	57,209	56,861	57,209
Contribution to Employees' Trust Fund	11,467	11,538	11,467	11,538
	1,187,164	1,030,468	1,187,164	1,030,468

* The planned assets of the qualified insurance policy exceeded the gratuity obligation, which resulted in a surplus, based on the actuarial valuation as at 31st December 2011. Accordingly no contribution was made during the year and the previous year.

11 NET INTEREST INCOME

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Interest income	381,740	264,049	381,740	264,049
Interest expense	(1,968)	(3,908)	(1,968)	(3,908)
	379,772	260,141	379,772	260,141

12 INCOME TAX EXPENSE

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

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Tax on current year profits	4,488,234	3,030,613	4,488,234	3,030,613
Origination of temporary differences (Note 22)	54,966	69,586	54,966	69,586
Income tax expense in income statement	4,543,200	3,100,199	4,543,200	3,100,199

Reconciliation of effective tax rate and the actual tax rate

	Group		Company	
	2011 %	2010 %	2011 %	2010 %
Actual tax rate	40.00	35.00	40.00	35.00
Disallowable expenses	3.16	4.63	3.16	4.63
Allowable expenses	(2.24)	(2.99)	(2.24)	(2.99)
Income exempt from income taxes	(0.10)	(0.21)	(0.10)	(0.21)
Deferred tax charge/ (reversal)	0.49	0.85	0.49	0.85
Others	(0.43)	0.54	(0.43)	0.54
Effective tax rate	40.89	37.82	40.89	37.82

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Tax effect based on normal tax rate (40%)	4,444,813	2,869,056	4,444,813	2,869,056
Tax effect on disallowable expenses	350,775	380,094	350,775	380,094
Tax effect on allowable expenses	(249,036)	(245,158)	(249,036)	(245,158)
Income exempt from Income taxes	(11,050)	(16,883)	(11,050)	(16,883)
Tax effect on rate differentials	(47,268)	(1,283)	(47,268)	(1,283)
Social Responsibility Levy	-	44,787	-	44,787
	4,488,234	3,030,613	4,488,234	3,030,613

13 BASIC EARNINGS PER SHARE

The basic earnings per share is calculated based on the profits attributable to ordinary shareholders divided by the weighted average number of ordinary shares during the year.

	Group		Company	
	2011	2010	2011	2010
Profit attributable to shareholders (Rs. 000)	6,568,831	5,097,102	6,568,838	5,097,104
Weighted average number of ordinary shares	187,323,751	187,323,751	187,323,751	187,323,751
Basic earnings per share - Rs.	35.07	27.21	35.07	27.21

14 PROPERTY, PLANT AND EQUIPMENT

Group	Freehold Land	Freehold Buildings	Building Improvements	Leasehold Buildings	Machinery/ Equipment *	Motor Vehicles	2011 Rs.000s	2010 Rs.000s
Cost								
Balance as at 1st January	97,630	318,447	44,622	31,283	2,848,932	111,784	3,452,698	3,284,294
Additions	-	8,258	17,924	-	221,058	-	247,240	190,080
Disposals	-	-	-	-	-	(3,044)	(3,044)	(343)
Write off	-	-	-	(231)	(45,454)	-	(45,685)	(21,333)
Balance as at 31st December	97,630	326,705	62,546	31,052	3,024,536	108,740	3,651,209	3,452,698
Depreciation								
Balance as at 1st January	-	199,502	20,626	29,661	1,710,609	77,249	2,037,647	1,869,071
Charge for the year	-	5,051	5,346	187	170,946	8,485	190,015	188,417
Disposals	-	-	-	-	-	(2,740)	(2,740)	(321)
Write off	-	-	-	(198)	(6,089)	-	(6,287)	(19,520)
Balance as at 31st December	-	204,553	25,972	29,650	1,875,466	82,994	2,218,635	2,037,647
Net book value before work-in-progress as at 31st December	97,630	122,152	36,574	1,402	1,149,070	25,746	1,432,574	1,415,051
Capital work-in-progress at cost	-	-	-	-	120,062	-	120,062	149,687
Carrying amount								
Net book value as at 31st December 2011	97,630	122,152	36,574	1,402	1,269,132	25,746	1,552,636	
Net book value as at 31st December 2010	97,630	118,946	23,998	1,623	1,288,006	34,535		1,564,738

Company	Freehold Land	Freehold Buildings	Building Improvements	Leasehold Buildings	Machinery/ Equipment	Motor Vehicles	2011 Rs.000s	2010 Rs.000s
Cost								
Balance as at 1st January	97,630	318,447	44,622	31,283	2,848,932	111,784	3,452,698	3,284,294
Additions	-	8,258	17,924	-	221,058	-	247,240	190,080
Disposals	-	-	-	-	-	(3,044)	(3,044)	(343)
Write off	-	-	-	(231)	(45,454)	-	(45,685)	(21,333)
Balance as at 31st December	97,630	326,705	62,546	31,052	3,024,536	108,740	3,651,209	3,452,698
Depreciation								
Balance as at 1st January	-	199,502	20,626	29,661	1,710,609	77,249	2,037,647	1,869,071
Charge for the year	-	5,051	5,346	187	170,946	8,485	190,015	188,417
Disposals	-	-	-	-	-	(2,740)	(2,740)	(321)
Write off	-	-	-	(198)	(6,089)	-	(6,287)	(19,520)
Balance as at 31st December	-	204,553	25,972	29,650	1,875,466	82,994	2,218,635	2,037,647
Net book value before work-in-progress as at 31st December	97,630	122,152	36,574	1,402	1,149,070	25,746	1,432,574	1,415,051
Capital work-in-progress at cost	-	-	-	-	120,062	-	120,062	149,687
Carrying amount								
Net book value as at 31st December 2011	97,630	122,152	36,574	1,402	1,269,132	25,746	1,552,636	
Net book value as at 31st December 2010	97,630	118,946	23,998	1,623	1,288,006	34,535		1,564,738

* Machinery / Equipment consists of plant and machinery, furniture and fittings, canteen equipment, lab equipment, agricultural equipment, house equipment and computer equipment.

There are no idle assets or assets that have been subject to a significant impairment.

	Freehold Land	Freehold Buildings	Building Improvements	Leasehold Buildings	Machinery/ Equipment	Motor Vehicles	2011 Rs.000s	2010 Rs.000s
Fully depreciated assets which are still in use are as follows								
Cost 2011	-	113,290	1,347	27,451	962,479	71,274	1,175,841	
Cost 2010	-	112,727	-	25,740	698,098	72,843		909,408

Based on the professional valuation carried out during 2009 for free hold land and buildings (Rs. 2.3Bn) and the internal assessment on the valuation of Plant, Equipment, Machinery and Motor vehicles, there were no indications of impairment.

14.1 Company Property

The freehold land and buildings were valued by Mr. P.B. Kalugalagedera, a Chartered Valuation Surveyor F I V (Sri Lanka), I R R V (UK), M S I Z (Zambia), F R I C S (UK) on 30 November 2009 and 31 December 2009. The method of valuation is open market value based on direct capital comparison method by taking in to account the observable prices in the active market or recent market transactions on arm's length term.

The Company is following the cost model as its accounting policy to measure the property plant and equipment after recognition. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs. 2,365,721,000.

Asset Type	Location	Extent			Revalued Amount Rs:000
		A	R	P	
Land and Buildings	No.178, Srimath Ramanathan Mawatha, Colombo 15, owned by Ceylon Tobacco Company PLC.	7	2	22.15	1,605,000
Land and Buildings	No.175, Paranagantota Road, Mawilmada, Kandy.	7	2	5.99	502,000
Land and Buildings	Hali Ela Depot - Ketawala Road, Medapitigama, Hali Ela.	1	1	38.50	10,500
Land and Buildings	Anuradhapura Depot - New Puttalam Road, Tissawewa, Pupulwa Village.	2	1	33.50	17,750
Land and Buildings	Nildandahinna Depot - Nildandahinna Village, Walapane.	2	1	04.00	15,500
Land and Buildings	Hanguranketa Depot - Damunumeya, Diyatilake Korale.	2	3	21.00	19,400
Land and Buildings	Melsiripura Depot - Karandagolla Village, Melsiripura, Hiriyale Hatpattu.	1	3	01.25	25,800
Land and Buildings	Ambale Depot - Teldeniya, Meda Dumbara.	2	-	09.66	6,750
Land and Buildings	Wendaruwa Quarters - Dunuwila Village, Meda Dumbara.	-	2	00.00	2,000
Land and Buildings	Kebitigollewa Depot - Kebitigollawa.	3	-	00.00	600
Land and Buildings	Hunnasgiriya Quarters - Uda Dumbara.	-	2	00.00	800
Land and Buildings	Walapane Depot - Watumulla Road, Walapane.	2	-	03.00	1,625
Land and Buildings	Galewela Depot - Kurunegala - Dambulla main road.	5	2	25.00	52,000
Land and Buildings	Nuwaraeliya Holiday Bungalow - No 48 Badulla Road.	-	1	31.30	36,000
Land	Warana Land - Mangalagiriya Road, Korasagoda, Mangalathiriya.	25	-	24.00	40,000
Land	Kalagedihena Land - Colombo Kandy Road.	1	2	22.00	29,000
Land	Naula Land - Dambulla Matale Road.	-	-	21.00	1,000

15 INTANGIBLE ASSETS

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Cost				
Balance as at 1st January	95,513	94,706	95,513	94,706
Additions	-	807	-	807
Write Off	(11,252)	-	(11,252)	-
Balance as at 31st December	84,261	95,513	84,261	95,513
Amortisation				
Balance as at 1st January	83,199	74,323	83,199	74,323
Charge for the year	5,918	8,876	5,918	8,876
Write Off	(11,252)	-	(11,252)	-
Balance as at 31st December	77,865	83,199	77,865	83,199
Net book value as at 31st December	6,396	12,314	6,396	12,314

16 INVESTMENTS IN SUBSIDIARY

	Share Holding %	No of Shares	Company	
			2011 Rs.000s	2010 Rs.000s
CTC Services Ltd	100	50,000	500	500
			500	500

17 RECEIVABLES

Receivables shown in the balance sheet include the following

17.1 Staff loans

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	204,107	225,293	204,107	225,293
Loans granted	220,980	66,249	220,980	66,249
Loans recovered	(96,008)	(87,435)	(96,008)	(87,435)
Balance as at 31st December	329,079	204,107	329,079	204,107
Receivable within one year*	(169,895)	(25,980)	(169,895)	(25,980)
Receivable after one year	159,184	178,127	159,184	178,127

*Receivable within one year has been included under "—Other receivables" in note 17.2

Staff loans are disbursed to employees of the Company excluding the Directors. 50 employees have been granted loans during the year 2011(2010: 35 employees).

17.2 Trade and other receivables

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Trade receivables	1,572,938	1,172,721	1,572,938	1,172,721
Other receivables	381,316	211,028	380,094	209,807
Interest income receivable	321	2,982	321	2,982
Receivables from subsidiary	-	-	3,202	3,086
Advances to farmers	69,017	19,953	69,017	19,953
Provision for doubtful debts (Note 17.3)	(77,720)	(72,077)	(77,720)	(72,077)
	1,945,872	1,334,607	1,947,852	1,336,472
17.3 Provision for doubtful debts				
Balance as at 1st January	72,077	65,534	72,077	65,534
Provision made during the year	11,074	8,409	11,074	8,409
Write off	(5,431)	(1,866)	(5,431)	(1,866)
Balance as at 31st December	77,720	72,077	77,720	72,077

18 INVENTORIES

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Raw materials	1,472,616	1,541,395	1,472,616	1,541,395
Work-in-progress	19,601	24,591	19,601	24,591
Finished goods	597,775	884,433	597,775	884,433
Consumables	246,480	234,941	246,480	234,941
Provision for obsolete and slow moving inventories (Note 18.1)	(134,202)	(123,494)	(134,202)	(123,494)
	2,202,270	2,561,866	2,202,270	2,561,866
18.1 Provision for obsolete and slow moving inventories				
Balance as at 1st January	123,494	118,165	123,494	118,165
Provision during the year	10,708	5,329	10,708	5,329
Balance as at 31st December	134,202	123,494	134,202	123,494

19 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Cash in hand & bank balances	558,649	119,267	558,061	118,787
Short term investments*	7,231,365	6,514,141	7,231,365	6,514,141
Cash and cash equivalents	7,790,014	6,633,408	7,789,426	6,632,928
Bank overdraft	-	(7,855)	-	(7,855)
Cash and cash equivalents in the cash flow statement	7,790,014	6,625,553	7,789,426	6,625,073

* Short term investments consist of fixed deposits, foreign currency deposits with maturity period within three months and overnight rupee placements.

20 STATED CAPITAL

	2011 Rs.000s	2010 Rs.000s
187,323,751 ordinary shares	1,873,238	1,873,238
	1,873,238	1,873,238

The holders of ordinary shares are entitled to receive dividends as declared by the Company from time to time and are entitled to one vote per share at the meetings of the Company. All shares rank equally with regard to the Company's residual assets.

21 EMPLOYEE BENEFITS

Retiring gratuity is a defined benefit plan- covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 3.0 million is not funded and has been provided for in the books of the Company.

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	4,258	5,209	4,258	5,209
Retiring gratuity paid	(1,239)	(951)	(1,239)	(951)
Balance as at 31st December	3,019	4,258	3,019	4,258

Retiring gratuity is a defined benefit plan- covering employees of the Company. Subsequent to 1992, the externally funded policy was purchased from Aviva NDB Insurance PLC and covers 297 staff attached to the Company. The plan is fully funded by a policy obtained from AVIVA NDB Insurance PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard 16, — Employee Benefits~ (SLAS 16), to classify it as a qualifying insurance policy (Plan asset).

An actuarial valuation was carried out as at 02nd January 2012 to value the present value of the defined benefit obligation (plan), by Mr. Piyal S Goonetilleke, a fellow member of the Society of Actuaries (USA) and a member of the American Academy of Actuaries. The valuation method used by the Actuary is the —Project Unit Credit Method~, the method recommended by the SLAS 16.

21 EMPLOYEE BENEFITS CONTD..

The Assets that meet the definition of the plan asset and the related defined benefit obligation liabilities are presented on a net basis in the balance sheet as prescribed by SLAS 16.

As at the balance sheet date the fair value of the plan asset amounted to Rs.982,909,959 and the present value of the defined benefit obligation amounted to Rs.786,718,181, which resulted in a net surplus of Rs. 196,191,778/- (2010 – Rs.1.5Mn).

The net asset amount recognized is limited to the present value of future contribution reductions and accordingly the Company has recognized the benefit of Rs. 105,118,761 in the Statement of changes in Equity.

21.1 Movement in the Plan asset and the liability

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Plan Asset				
Opening Balance	893,932	884,918	893,932	884,918
Expected Return	133,019	84,067	133,019	84,067
Net Actuarial Loss	(44,041)	(75,053)	(44,041)	(75,053)
Plan Asset as at 31st December	982,910	893,932	982,910	893,932
Present Value of Defined Benefit Obligation				
Opening Balance	892,364	874,488	892,364	874,488
Current Service Cost	55,206	52,776	55,206	52,776
Interest Cost	77,701	78,705	77,701	78,705
Actuarial Gain	(238,553)	(113,605)	(238,553)	(113,605)
Present Value of the Defined Benefit Obligations	786,718	892,364	786,718	892,364
Resulting Net Asset	196,192	1,568	196,192	1,568

21.2 Actuarial assumptions

Principal actuarial assumptions at the reporting date,

	2011 %	2010 %
Discount rate at 31st December	9.0	8.2
Expected return on plan assets at 1st January	9.5	9.5
Future salary increases	15.0	15.0
The overall expected long-term rate of return on assets	9.5	9.5

Assumptions in respect of future mortality are based on GA 1983 Mortality Table

22 DEFERRED TAX LIABILITIES

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	199,940	130,354	199,940	130,354
Origination of temporary differences	54,966	69,586	54,966	69,586
Balance as at 31st December	254,906	199,940	254,906	199,940
Deferred tax liabilities				
Property, Plant & Equipment	254,346	216,934	254,346	216,934
Intangible assets	1,767	2,346	1,767	2,346
	256,113	219,280	256,113	219,280
Deferred tax assets				
Retiring gratuity	(1,207)	(1,490)	(1,207)	(1,490)
Employee compensation	-	(17,850)	-	(17,850)
Net deferred tax liabilities	254,906	199,940	254,906	199,940

23 TRADE & OTHER PAYABLES

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Trade payables	35,557	32,613	35,557	32,613
Other payables including Government levies	4,611,000	4,344,174	4,611,000	4,344,174
Accruals	897,244	877,083	897,244	877,083
Payable to Group entities (Note 23.1)	166,158	159,790	166,158	159,790
	5,709,959	5,413,660	5,709,959	5,413,660
23.1 Payable to Group entities				
BAT (UK & Export) Ltd	165,167	144,656	165,167	144,656
British American Shared Services	206	125	206	125
BAT Aspac Service Centre	130	3,976	130	3,976
BAT Singapore	-	9,024	-	9,024
BAT International Europe	-	400	-	400
BAT Bangladesh	-	1,609	-	1,609
BAT Malaysia Tobacco	38	-	38	-
BAT Singapore	617	-	617	-
	166,158	159,790	166,158	159,790

Also refer Note 26 to the financial statements

24 CURRENT TAXATION

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	1,870,497	1,312,524	1,870,497	1,312,524
Income tax on profit (Note 12)	4,488,234	3,030,613	4,488,234	3,030,613
Income tax paid	(3,025,156)	(2,472,640)	(3,025,156)	(2,472,640)
Balance as at 31st December	3,333,575	1,870,497	3,333,575	1,870,497

25 DIVIDENDS PAYABLE

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	1,077,111	992,816	1,077,111	992,816
Dividends declared	6,766,134	4,804,854	6,766,134	4,804,854
Dividends paid	(7,002,766)	(4,702,862)	(7,002,766)	(4,702,862)
Payments from/(transfers to) unclaimed dividends (Note 25.2)	2,478	(17,697)	2,478	(17,697)
Balance as at 31st December	842,957	1,077,111	842,957	1,077,111

**25.1 Dividends declared
Group / Company**

	2010 Final Paid	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2011 Rs.000s
2011						
Dividend per share Rs.	7.22	4.20	9.70	10.50	4.50	36.12
Dividends to Shareholders	1,217,231	708,084	1,635,335	1,770,207	758,661	6,089,518
Tax deducted at source	135,246	78,676	181,705	196,693	84,296	676,616
	1,352,477	786,760	1,817,040	1,966,900	842,957	6,766,134
	2009 Final Paid	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2010 Rs.000s
2010						
Dividend per share Rs.	5.70	3.30	5.90	5.00	5.75	25.65
Dividends to Shareholders	961,374	556,572	995,097	843,293	969,400	4,325,737
Tax deducted at source	106,371	61,597	110,113	93,326	107,711	479,117
	1,067,745	618,169	1,105,210	936,619	1,077,111	4,804,854

25.2 Unclaimed dividends

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Balance as at 1st January	57,608	42,452	57,608	42,452
Transfers / Payments	(2,478)	17,697	(2,478)	17,697
Write back	(2,479)	(2,541)	(2,479)	(2,541)
Balance as at 31st December	52,650	57,608	52,650	57,608

26 RELATED PARTY TRANSACTIONS

26.1 Transactions with Group entities

a) Name of the Company	Nature of transaction	Nature of relationship	Transaction value	
			2011 Rs.'000s	2010 Rs.'000s
BAT Singapore	Exports of Cigarettes	BAT Group Co.	44,245	48,720
BAT Singapore	Reimbursement of expenses and import of leaf and printed material	BAT Group Co.	73,636	49,232
BAT International	Import of cigars	BAT Group Co.	2,035	1,110
BAT UK	Technical & Advisory fees	BAT Group Co.	503,163	283,378
ITC Limited	Import of printed material	BAT Associate Co.	1,957	5,218
Anspac Services (Pvt) Ltd	Import of printed materials	BAT Group Co.	1,423	2,297
BAT SAA Services (Pvt) Ltd	Reimbursement of expenses	BAT Group Co.	19,675	23,399
Pakistan Tobacco Company PLC	Reimbursement of expenses	BAT Group Co.	8,634	5,188
British American Shared Services (BASS)	Information technology related services	BAT Group Co.	115,190	67,802
BAT Asia Pacific Region Ltd	Reimbursement of expenses	BAT Group Co.	41,375	114,744
BAT (Malaysia) Berhad	Reimbursement of expenses	BAT Group Co.	3,913	16,562
BAT Aspac Service Centre	Reimbursement of expenses	BAT Group Co.	95,539	39,653
BAT Bangladesh Company Ltd	Reimbursement of expenses	BAT Group Co.	1,636	1,609
BAT Australia	Import of machinery	BAT Group Co.	-	50

b) *The amounts payable to Group entities have been disclosed in Note 23.1*

26.2 Transactions with Key Management Personnel (—KMP) of the Company

According to Sri Lanka Accounting Standard 30 (Revised 2005) —Related Party Disclosures, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors of the Company (including executive and non - executive directors) and their immediate family members have been classified as KMP of the Company.

As the Company is the parent of its subsidiary listed out in Note 16, and the Board of Directors of the Company have the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Company and their immediate family members have been identified as the KMP of the Group.

Immediate family member is defined as spouse or dependent. Dependent is defined as anyone who depends on the respective Director for more than 50% of his/her financial needs.

26.2 Transactions with Key Management Personnel (—KMP*) of the Company Contd..

Therefore, officers who are only directors of the subsidiary and not of the Company have been classified as KMP of that respective Subsidiary only.

The ultimate parent of the Company is British American Tobacco plc (—BAT*). Accordingly, the Board of Directors of BAT has also been identified as the KMP of the Company and its subsidiary.

The emoluments paid to the KMP have been disclosed in Note No 10. No emoluments have been paid to the Directors of BAT.

In addition to their salaries, the Company also provide non-cash benefits to KMP and contribute to a defined benefit plan on behalf of the Executive Directors.

26.3 Transactions with other related entities

Other related entities are those which are controlled or significantly influenced, directly or indirectly by Key Management Personnel (KMP) of the Company. The following Directors are in the directorate of those companies, with which Ceylon Tobacco Company PLC has carried out businesses during the year. All transactions were negotiated and carried out in the ordinary course of business.

a	Name of the Company	Control, Joint Control or Significant Influence by KMP	Nature of transaction	Transaction value	
				2011 Rs.'000s	2010 Rs.'000s
	Jaykay Marketing Services (Pvt) Limited	Susantha Ratnayake, Deva Rodrigo	Provision of marketing services	16,345	29,039
	Keells Hotel Management Services Limited	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	-	110
	Kandy Walk Inn Limited	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	343	20
	DHL Keells (Pvt) Limited	Susantha Ratnayake, Deva Rodrigo	Provision of courier services	4,234	4,043
	Cinnamon Grand- Colombo	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	3,682	6,074
	John Keells Computer Services	Susantha Ratnayake, Deva Rodrigo	Provision of computer equipment	3,979	5,069
	Mackinnons Travels (Pvt) Limited	Susantha Ratnayake, Deva Rodrigo	Management of air travel	41,376	25,700
	Walkers Tours Limited	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	53	333
	John Keells Holdings PLC	Susantha Ratnayake, Deva Rodrigo	Provision of marketing services	1,805	10,085
	Cinnamon Lakeside- Colombo	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	4,023	8,258
	Asian Hotels and Properties PLC	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	1,733	-
	Beruwala Holiday Resorts (Pvt) Ltd	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	412	-
	Habarana Lodge Limited	Susantha Ratnayake, Deva Rodrigo	Provision of leisure services	106	-
	Softlogic Trading (Pvt) Limited	Deva Rodrigo	Provision of computer equipment	387	-
	Softlogic Communication (Pvt) Limited	Deva Rodrigo	Purchase of mobile phones	707	-
	Pakistan Tobacco Company Limited	Mobasher Raza	Purchase of machinery and leaf	8,634	5,188

* Mr. Deva Rodrigo resigned from the Board of John Keells Holdings PLC with effect from 26th June 2011.

27 EMPLOYEE SHARE OPTION SCHEME

The BAT Group through an Employee Share Option Scheme (ESOS) offers share options in BAT PLC to selected Senior Managers of Ceylon Tobacco Company PLC. These options are exercisable in three years time from the date of grant. There is no arrangement whereby shares of Ceylon Tobacco Company PLC will be allotted.

No administration cost / recharge have been paid in respect of this for the current year and previous year.

28 COMMITMENTS

Capital commitments

There were no Capital Commitments contracted but not provided for in the financial statements of the Company or in the Group accounts as at 31st December 2011. (2010- Nil)

29 CONTINGENT LIABILITIES

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

Guarantees issued to Commissioner General of Excise in lieu of obtaining certificate of registration in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 Rs.500 million (2010- Rs.500 million)

Guarantees issued to Director-General of Customs in lieu of custom duty payable on clearing consignments Rs. 74.6 million (2010- Rs. 49.3 million)

Shipping Guarantees issued Rs. 9.1 million (2010-Rs.15.9 million) ,for goods cleared before the arrival of original bank documents.

Outstanding litigation

In the opinion of the Directors and the Company's lawyers pending litigation against the Company will not have a material impact on the reported financial results or the future operations of the Company

30 EMPLOYEE NUMBERS

The total number of permanent employees of the Group as at 31st December 2011 amounted to 282 (2010 - 284).

31 SEGMENTAL ANALYSIS

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

	Group		Company	
	2011 Rs.'000s	2010 Rs.'000s	2011 Rs.'000s	2010 Rs.'000s
Geographical analysis of gross turnover				
Sri Lanka	76,106,311	63,475,104	76,106,311	63,475,104
Maldives	44,245	48,720	44,245	48,720
	76,150,556	63,523,824	76,150,556	63,523,824
Geographical analysis of net results (Profit for the year)				
Sri Lanka	6,566,579	5,090,258	6,566,586	5,090,260
Maldives	2,252	6,844	2,252	6,844
	6,568,831	5,097,102	6,568,838	5,097,104

32 POST BALANCE SHEET EVENTS

There were no other material events occurring after the balance sheet date as at 31st December 2011 that require adjustments or disclosure in the financial statements except for the following:

Proposed dividends

The Board of Directors has recommended a final dividend of Rs. 5.70 per share amounting to Rs. 1,067 Million (less tax of approximately 107 Million) for the year ended 31st December 2011. This is to be approved at the Annual General Meeting to be held on 3rd April 2012. Once approved by the shareholders, the final dividend will be payable on 17th April 2011. In accordance with Sri Lanka Accounting Standard No.12 (Revised) —Events After the Balance Sheet Date”, this proposed final dividend has not been recognised as a liability as at 31st December 2011.

As Required by section 56 of the Companies Act No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with section 57 prior to recommending the final dividend; a statement of solvency completed and duly signed by the Board of Directors on 31st January 2012 has been audited by M/S KPMG Ford Rhodes Thornton & Co.

33 DIRECTORS RESPONSIBILITY

The Directors acknowledge the responsibility for the preparation and presentation of the financial statements.

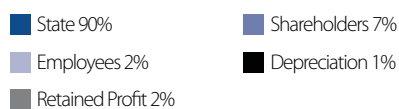
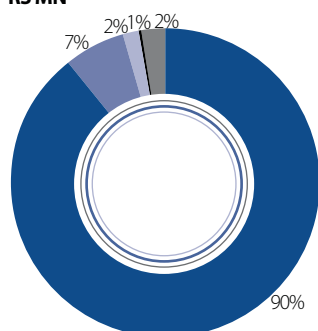
The Directors responsibility statement is in page 53 of this annual report.

Statement of Value Added

	2011 Rs.000s	2010 Rs.000s
Gross revenue	76,150,556	63,523,824
Supplied materials & services	(4,956,725)	(4,346,225)
Net interest income	379,772	260,141
Other operating income	48,662	36,323
	71,622,265	59,474,064
State	63,670,337	53,149,200
Shareholders	5,413,655	3,737,109
Employees	1,187,164	1,030,468
Depreciation	195,933	197,293
Retained Profit	1,155,176	1,359,993
	71,622,265	59,474,064

Value added per employee

RS MN



Shareholder information

ORDINARY SHAREHOLDING

Stated Share Capital - Rs.	1,873,237,510
Number of shares representing the Entity's stated capital	187,323,751
No of Shareholders as at 31 December 2011	3950 (2010 -3,989)

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	2,567	670,063	0.36	33	11,808	0.01	2,600	681,863	0.36
1001 - 10,000	1,161	3,372,719	1.80	46	177,355	0.09	1,207	3,550,074	1.90
10,001 - 100,000	100	2,475,352	1.32	22	764,926	0.41	122	3,240,278	1.73
100,001 - 1,000,000	8	1,910,787	1.02	10	3,076,900	1.64	18	4,987,687	2.66
Over 1,000,000	-	-	-	3	174,863,841	93.35	3	174,863,841	93.35
Total	3,836	8,428,921	4.50	114	178,894,822	95.50	3,950	187,323,751	100.00

COMPUTATION OF % OF PUBLIC SHAREHOLDING

	31-Dec-11 No of Shares	31-Dec-10 No of Shares
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
Directors Shareholding (Including Spouses & Children)		
J. D. Bandaranayake	217,435	178,335
V. P. Malalasekera	7,564	7,564
S. C. Ratnayake	644	644
James Yamanaka (Managing Director & CEO)	-	-
	225,643	186,543
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)	225,643	186,543
Public Holding	29,507,177	29,546,277
Total Issued no of Shares	187,323,751	187,323,751
Public Holding as a % of issued number of shares	15.75	15.77

	No of Shares	%	No of Shareholders	%
Individuals	7,463,007	3.98	3,753	95.01
Institutions	179,860,744	96.02	197	4.99
	187,323,751	100.00	3,950	100.00

CTC SHARE PERFORMANCE AT COLOMBO STOCK EXCHANGE (CSE)

Reuters' code CTC,CM

Year	2011	2010
No of share transactions for the year	1,642	1,759
No of Shares traded	3,551,300	1,876,000
Price Movements Rs.		
Highest	500.00	399.90
Lowest	340.00	191.00
Closing Price	490.10	355.00
Market Capitalisation (Rs. Mln)	91,807	66,499
Closing Price * Share Capital		

20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2011

Name	December 31, 2011		December 31, 2010	
	No of Shares	%	No of Shares	%
1 British American Tobacco Holdings(Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
2 FTR Holdings SA	15,585,910	8.32	15,585,910	8.32
3 Pershing LLL SA Averbach Grauson & Co.	1,687,000	0.90	1,549,600	0.83
4 Belmont Agents Limited	900,000	0.48	900,000	0.48
5 RBC Dexia Investor Services Bank S.A.-Vontobel Fund 6	638,400	0.34	285,800	0.15
6 Aviva NDB Insurance PLC A/c No.7	616,000	0.33	402,100	0.21
7 Pan Asia Banking Corporation/Mr C.N.Rajamoney	340,300	0.18	405,300	0.22
8 Mrs Jasbinderjit Kaur Piara Singh	313,600	0.17	290,600	0.16
9 Miss Neesha Harnam	272,300	0.15	372,300	0.20
10 Harnam Holdings SDN BHD	228,900	0.12	203,900	0.11
11 HSBC INTL NOM Ltd - SSBT	195,600	0.10	195,600	0.10
12 Mr. Duleep Fairlie George Dalpethado	183,776	0.10	150,376	0.08
13 Mr Jayampathi Divale Bandaranayake	183,344	0.10	144,244	0.08
14 HSBC INTL NOM-BP2S Singapore	153,300	0.08	-	-
15 DFCC Bank A/C NO.1	150,967	0.08	150,967	0.08
16 COCO Lanka PLC	150,000	0.08	150,000	0.08
17 HSBC INTL NOM Ltd - UBS AG - Singapore	150,000	0.08	150,000	0.08
18 J B Cocoshell (Pvt) Ltd	149,400	0.08	-	-
19 Aviva NDB Insurance PLC A/c No.3	137,000	0.07	152,900	0.08
20 Aardwolf Limited	118,800	0.06	-	-
Sub Total	179,745,528	95.95	178,680,528	95.39
Balance held by 3930 share holders (2010-3967 shareholders)	7,578,223	4.05	8,643,223	4.61
Total Shares	187,323,751	100.00	187,323,751	100.00

Notice of meeting

NOTICE IS HEREBY given that the Eighty First 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, 03 April 2012 at 10.00 am for the following purposes :

- (i) To receive consider and adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2011 and the Independent Auditors Report therein.
- (ii) To declare a Final Dividend
- (iii) To re-elect Directors.
 - To re-elect Mobasher Raza who comes up for retirement by rotation
 - To re-elect Susantha Ratnayake who comes up for retirement by rotation
 - To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association. (refer —A*)
 - To re-elect Desamanya Parakrama Devasiri Rodrigo, under Article 86(2) of the Company's Articles of Association. (refer —A*)
- (iv) To authorise the Directors to determine and make donations.
- (v) To appoint Messrs PricewaterhouseCoopers, Chartered Accountants, as auditors of the Company for the year ending 31st December 2012 and to authorise directors to determine their remuneration.

By Order of the Board



Ranjan Seneviratne
COMPANY SECRETARY

31 January 2012

In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9th November 2009 and Desamanya Parakrama Devasiri Rodrigo (who attained the age of 65 years on 14 July 2010) retires at the conclusion of the Annual General Meeting, but seeks re- election as Directors of the Company notwithstanding their age , in terms of notices dated 05 January 2012 received from the British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, as presented to the meeting and initialled by the Chairman for purposes of identification, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage and Desamanya Parakrama Devasiri Rodrigo and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage, and Desamanya Parakrama Devasiri Rodrigo and it was resolved that the said re-election be proposed at the ensuing Annual General Meeting.

NOTES

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

IMPORTANT

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

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

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

N.B.

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

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

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:..... ofwhom failing

Jayampathi Divale Bandaranayake	whom failing
James Yamanaka	whom failing
Vijaya Prasanna Malalasekera	whom failing
Atif Hasan	whom failing
Desamanya Parakrama Devasiri Rodrigo	whom failing
Susantha Ratnayake	whom failing
Mobasher Raza	whom failing
Ariyaratne Hewage	

as my / our Proxy to represent me / us and * vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at 10.00 am on Tuesday, 3rd April 2012 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

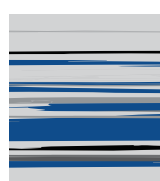
I / We, the undersigned, hereby direct my / our Proxy to vote for me / us and on my / our behalf on the specified Resolutions as indicated by an 'X' in the appropriate spaces.

	Yes	No
(i) To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31st December 2011.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect Mobasher Raza who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Susantha Ratnayake who comes up for retirement by rotation	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect Desamanya Parakrama Devasiri Rodrigo, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To appoint Messrs PricewaterhouseCoopers, Chartered Accountants, as auditors of the Company for the year ending 31st December 2012 and to authorise directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

.....
Signature

Signed this day of Two Thousand and Twelve.

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



Instructions as to completion :

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to the resolution or make any statement in regard thereto on behalf of any Shareholder.
2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.
3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution. If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If Form of Proxy is signed by an Attorney, the relative Power-of- Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No.178, Srimath Ramanathan Mawatha, Colombo 15, before 10.00 am on 30 March 2012.
7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

Corporate information

NAME OF THE COMPANY

Ceylon Tobacco Company PLC
Reg. No. PQ 29

REGISTERED OFFICE

178, Srimath Ramanathan Mawatha,
Colombo 15

LEGAL FORM

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

REGISTRARS

SSP Corporate Services (Private) Limited

LEGAL ADVISORS

Messrs Julius & Creasy
Attorneys-at-Law

Messrs FJ & G De Saram
Attorneys-at-Law

AUDITOR

Messrs KPMG Ford, Rhodes,
Thornton & Co

BANKERS

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

SUBSIDIARY COMPANY

CTC Services Limited

HOLDING COMPANY

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

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