CEYLON TOBACCO COMPANY

A member of the British American Tobacco Group

Annual Report 2014

Generations of value

Our Vision

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

Our Guiding Principles

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

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

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

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

Generations of value

Throughout our 108 year heritage, we have demonstrated an unwavering commitment to create shared value; ensuring what we do as a business not only benefits our shareholders, but has a much wider, positive impact on our people, the environment and the nation at large. We have nurtured the many stakeholders who have partnered with us on our journey; enriching lives, empowering communities and inspiring excellence.

During the year in review, motivated by our vision, driven by our strategies and guided by our principles, we continued to generate value across the business, over the short, medium and long term. We reinforced our position as one of the most respected corporate citizens in Sri Lanka by adopting forward thinking, sustainable practices which continued to create wealth and value across all spheres of our business.

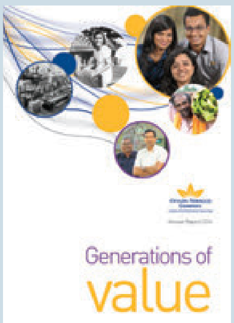
In this report we elaborate how the sustainability ethos underpins our operations and approach to business and celebrate the generations of value accrued across a century of corporate excellence.

Contents

Financial Highlights

	2014 Rs. Mn.	2013 Rs. Mn.
Gross Turnover (including VAT)	87,900	89,455
Government Levies	66,161	67,837
Net Revenue	21,739	21,618
Profit Before Tax	14,587	15,243
Profit After Tax	8,619	9,140
Net Assets	3,898	4,315
Interim Dividends	7,399	7,530
Total Value Added	82,125	84,391
Capital Investments	311	288
Market Capitalisation	198,582	221,866
Value Added per Employee	308	294
Number of Permanent Employees	267	287
Per Share (Rs.)		
Market Value	1,060.10	1,184.40
Net Assets	20.81	23.04
Earnings	46.01	48.80

Scan this QR code to view this version of the Annual Report on your mobile device.



Download a QR Code Scanning application for your device and scan the code to open the investors page on the website which contains key financial data including annual reports.

The report can also be viewed by visiting our website www.ceylontobaccocompany.com

Our Performance

2nd Most Valuable Company

With a market capitalisation of Rs. 199 billion, Ceylon Tobacco Company PLC is one of the most valuable companies listed on the Colombo Stock Exchange.

108 Years

of corporate excellence in Sri Lanka.

9,200 Farmers

Within the BAT Group, CTC holds a unique position of domestically producing almost 100 per cent of its tobacco requirement.

67,000+

beneficiaries in over 17,400 families are empowered through our flagship CSR project – SADP.

63,000+ Jobs Created

island wide, in tobacco farming, manufacturing and retailing sectors.

Rs. 5.0 billion Infused to Rural Economy

through farming and retailing.

Key Source of National Revenue

CTC contributed

Rs. 73.6 billion

in excise, taxes and levies equivalent to approximately

8%

of the Government's total revenue.

Rs. 1.0 billion

invested into Corporate Social Responsibility initiatives over the past decade.

148,000+

Livelihoods Generated

across our business.

0 LWC

(Zero Lost Workday Cases)

Our commitment to employee health and safety over the past years has ensured a safe work environment devoid of any serious accidents.

Chairman's Statement

Commendable financial performance during the year rewarded shareholders with above industry average returns, in keeping with the top tier companies in Sri Lanka.

Susantha Ratnayake
Chairman

Q:

CTC achieved commendable performances in the face of multiple adversities in 2014. How was this possible?

A:

As we close this financial year, it gives me great pleasure, to present to you the Annual Report and Audited Accounts of your Company. Ceylon Tobacco Company's (CTC's) operational and financial performance in 2014, when considering the challenging developments that have shaped the backdrop to this year, has been commendable indeed.

During the year in review, your Company continued to invest in productivity enhancements and successfully implemented all strategies planned for the year. We have always remained cautiously optimistic of our operational performance and during the year 2014 worked with resolve to create wealth for all our stakeholders.

Regulatory enforcements by early 2015 required CTC to reassess its brand packaging, thereby necessitating numerous changes to the packing process including large scale re-design of all packs. However, I am pleased to note that CTC worked within the boundaries stipulated by the regulators to deliver all regulatory requirements on time and in full.

Q:

What were the fundamentals of achieving consistent growth in the past year?

A:

During the year in review, the Company witnessed many positive outcomes in relation to productivity as a result of initiatives undertaken during the recent past to re-organize, streamline and tighten its operations. Critical initiatives for product acceleration, complexity and inventory reduction and the overall intent to enhance productivity across the value chain through the smart utilisation of resources remained key contributors to CTC's achievements during the year.

Value integration also remained core to the success of CTC's financial performance in 2014. The extrapolation of SWITCH technology to the John Player Gold Leaf (JPGL) brand as an innovative variant - JPGL Click - enabled your Company to grow its value base as opposed to volume base. This strategy of value infusion through innovation remained key for CTC and will no doubt define the future sustainability of the Company.

Adding further value through optimisation of resources and harmonisation of global processes, in 2014 we implemented British American Tobacco's (BAT's) new operating SAP model through 'Project TaO'. We are encouraged by the positive outcomes to-date and benefits due to accrue as a result of this investment in the medium term.

At CTC, Social Responsibility is fundamental to our business strategy. We are committed to operate in an open and transparent manner, and base our actions on good governance principles that are instilled by the Group's business ethics.

Q:

What is the role of responsibility in the Company's business strategy?

A:

At CTC, Social Responsibility is fundamental to our business strategy. We are committed to operate in an open and transparent manner, and base our actions on good governance principles instilled by the Group's business ethics.

Our commitment to the National Economy has become progressively more prominent over the years. We consider this to be a productive contribution towards National development; a means by which we are able to play a considerable role in the progress of social infrastructure.

Furthermore, as a responsible corporate citizen, CTC has consistently and strategically deployed sustainability investments towards social development. Our mainstay Corporate Social Responsibility (CSR) initiative, the Sustainable Agriculture Development Programme (SADP) gained further momentum during the year, reaching out to more than 17,400 families since its inception in 2006.

Our commitment to sustainable and responsible business stems from the top. The Board of Directors, Executive Committee (ExCo) and all of CTC's management view sustainable, triple bottom line performance as the fulcrum for future development.

Q:

How has regulation impacted the sustainability of the business?

A:

During the latter half of 2014, we saw the introduction of government regulations that mandated Pictorial Health Warnings (PHWs) covering 60 per cent of the front and back pack faces. As a responsible corporate, your Company made extensive preparations to comply with the regulations, which came into effect on 1 January 2015, ensuring a timely roll out of the new packaging formats.

In the face of excise led price increases during the year, the Company continued to lose ground to the beedi sector which has witnessed a threefold growth over the past two years. Recovering market share remains an uphill task, and looking to the future, we are concerned that constant price increases in cigarettes will result in further growth of the beedi sector. The beedi trade is at an unfair price advantage as they continue to remain unregulated and unaffected by the regulatory price increases or product-based regulations such as health warnings. Although regulation of the beedi sector has been discussed for many years it still remains at nascent stage. CTC strongly recommends that regulations be imposed on this segment of the market and calls for the regulatory authorities to construct a level-playing field for all, in line with the declarations made in the recent interim National Budget.

Q:

How much value did CTC generate to the National Economy in 2014?

A:

Our commitment to the National Economy has become progressively more prominent over the years. We consider this to be a productive contribution towards National development, a means by which we are able to play a considerable role in the progress of social infrastructure. In 2014, CTC continued to be the largest source of revenue to the Government of Sri Lanka, contributing Rs. 73.6 billion to the National Exchequer in excise duties and other taxes which represents approximately 8 per cent of the total revenue.

Q:

Can you comment on the value generation to investors?

A:

Commendable financial performance during the year rewarded shareholders with above industry average returns, in keeping with the top tier companies in Sri Lanka. Four interim dividends totalling Rs. 39.50 per share were paid to shareholders for the year 2014.

Q:

What would you like to say in conclusion?

A:

In the year under review, the Board composition witnessed numerous changes. Mr. Mobasher Raza, Mr. Ariyaratne Hewage, Mr. Henry Koo and Mr. Ariful Islam retired during the year and I take the opportunity to thank them for their invaluable contribution towards the success of CTC.

I would like to welcome the new members who joined the Board in 2014; Mr. Dinesh Weerakkody, Mr. Javed Iqbal, Mr. Kenneth Allen and Mr. Stephan Matthiesen.

Let me also take this opportunity to thank my colleagues on the Board for their support and guidance and the CTC team for their passion and fortitude.

Whilst conveying my sincere appreciation to all our stakeholders for believing in our strength and capability, I reiterate our commitment to deliver value consistently, at every opportunity.

Susantha Ratnayake
Chairman

11 February 2015

MD and Chief Executive Officer's Statement

Despite facing formidable challenges in 2014, your Company performed commendably, to record a gross turnover of Rs. 87.9 billion and deliver a profit before tax of Rs. 14.6 billion.

Felicio Ferraz

Managing Director and
Chief Executive Officer

We have been demonstrating our responsibility and sincerity of purpose to regulators and the public by advocating our own voluntary code of conduct in addition to complying with regulations.

Q:

How would you describe the past financial year and what would you say were the key highlights?

A:

Firstly, I take great pleasure in addressing our valued shareholders through my review of operations for the year 2014. Our shareholders will be pleased to note that the year in review has been one where we have seen positive outcomes despite persistent constraints and hurdles on the external and internal fronts.

Cost structures in 2014 expanded as we invested towards operational and productivity enhancements. This includes the implementation of BAT's new operating model – 'TaO' in January. Although this has impacted our profitability during this financial year, I am confident that we will yield benefits from the investment over the next five years. In addition, during the latter part of the year, preparations to comply with the government regulations on Pictorial Health Warnings (PHWs) brought additional costs and complexities to our business.

As in the past years, CTC continued to witness declining volumes, but on the positive side, grew exports in 2014, thereby maintaining a growth momentum in turnover. While the complexity of challenges we faced as a commercial enterprise increased over time, looking forward, we do not foresee these challenges or their complexities reducing.

Despite facing formidable challenges in 2014, your Company performed commendably, to record a gross turnover of Rs. 87.9 billion and deliver a profit before tax of Rs. 14.6 billion. Sound financial performance has allowed a dividend payout of Rs. 39.50 per share.

Q:

The market has been in decline during the recent past. Did 2014 demonstrate the same trend?

A:

In the past three years, we have witnessed a contraction in the market, with a cigarette volume decline greater than 20 per cent - approximately one billion sticks. However, the reality is that tobacco consumption is growing but this growth is fuelled by greater demand and supply of non-regulated, cheaper alternatives such as beedi. Regulations, at the moment only impact CTC as we are the only legitimate cigarette manufacturer in Sri Lanka. Meanwhile, a sizeable unregulated tobacco sector grows unchecked. This is evident over the last two years during which, the beedi sector has shown a threefold growth to reach 42 per cent of the market share. Whilst the growth of the beedi market is of concern to CTC, we believe that the greater issue is one of National importance. On one hand, a growth in the unregulated market will continue to erode government revenue whilst, on the other, these products carry no health warnings, pay no taxes and remain easily accessible to consumers. Another growing threat stems from smuggled products, an area which we need to be mindful of at all times.

Q:

There have been regulatory changes in the past year – how will they shape CTC's operations?

A:

Let me reassure our shareholders that CTC has always been and will continue to be a responsible tobacco company. We have been demonstrating our responsibility and sincerity of purpose to regulators and the public at large by advocating our own voluntary code of conduct for the marketing of our products, in addition to complying with stipulations of the regulators. We view regulation as a necessity for the industry. In fact, we welcome balanced, evidence based regulation as it is in the best interests of our consumers. As a business, CTC embraces change, not only as an outcome of a response to regulation but because we view change as a stimulus in shaping our business.

The past year was essentially one in which we set out to embrace challenges and changes with passion. During this reporting period, we witnessed CTC undergo a series of incremental changes; taking its people and processes to a new state of operational readiness, which I feel has moulded the team to face the challenges of the future in the true CTC spirit. Significant of these changes was the introduction of PHWs covering 60 percent of the front and back pack facings, which came into effect on 1 January 2015, with traders and retailers allowed 30 additional days to exhaust cigarette packs already available in the market. Your Company planned extensively for the timely roll-out of the new packaging formats and I am pleased to note that CTC delivered in every aspect of the regulators' requirements, on time and in full. However, I must emphasise that the implementation of the PHWs came at an additional cost, not only for 2014, but as the images used are required to be changed every six months, there will be a recurring cost which will continue to impact our bottom line.

Q:

CTC was recognised as the second most valued corporate on the Colombo Stock Exchange in 2014. During the year in review the Company also earned many accolades. What is key in your drive for excellence?

A:

Firstly, being part of one of the largest multinational companies in the world – the BAT Group – has been a key factor in our success. As a member of the Group, we have access to global resources that have been time tested. As a Company that has existed for more than 100 years, BAT is amongst the best performers on the London Stock Exchange and is a forerunner in establishing global standards of business best practices. The Group has been listed on the Dow Jones Sustainability Index for 13 consecutive years and remains the only tobacco company that is working strategically towards sustainability. All these elements are reflected in every single BAT operation throughout the world, and this infusion of BAT practices and culture remains key to CTC's successes.

Our people also play a pivotal role in the success of the business. CTC's culture is based on BAT's global employer brand philosophy; "Bring Your Difference", which encourages employees to preserve their individuality and add their uniqueness to the Company's workings. The Company believes in different people bringing their diversity to form a dynamic work environment, and being accountable to produce great results. Each of our employees, embodies the same enterprising spirit. They all act as owners of the business and are expected to deliver efficiently and effectively.

Having a strong portfolio fuelled by innovation has also been a highlight in our drive for excellence. This financial year, we infused value across our core premium and aspirational premium brands building on the success of the capsule segment.

Having a strong portfolio fuelled by innovation has also been a highlight in our drive for excellence. This financial year, we infused value across our core premium and aspirational premium brands – Dunhill and JPGL – building on the success of the capsule segment. This, together with increased export volumes, enabled us to compensate for the volume loss, through enhanced value growth in our premium and aspirational premium ranges. In 2014, innovation remained crucial to how we maintained our financial performance.

Q:

How strategic are triple bottom line efforts to CTC?

A:

Concern for the triple bottom line is no longer an option for corporations. We firmly believe that it needs to be a core component of how we do business. Sustainable business practices became part of how your Company operates much before sustainability became a corporate headline. In fact, our sustainability stance is one that has evolved over the past century of operations in Sri Lanka. Much like how BAT Group embraces sustainable business practices, CTC epitomises the integration of the triple bottom line and has done so for many decades.

We believe that creating and maintaining mutually beneficial and economically sustainable long term relationships with shareholders, consumers, employees, valued business partners and partner communities is how CTC has ensured the strength and success of its operations. With the integration of over 9,200 rural farmers to our value chain, we directly infuse economic returns through wealth creation for rural communities. CTC also remains the highest contributor to government revenue and supports a sustainability initiative that has been recognised as one of the most engaging and socially enriching in poverty alleviation. Our flagship Corporate Social Responsibility (CSR) initiative, Sustainable Agriculture Development Programme (SADP) has empowered rural communities across the country and created a sustainable livelihood programme that is one of a kind. Since the inception of the programme, your Company propagated the benefits of SADP to over 67,000 beneficiaries.

During the reporting period, your Company's efforts to drive value for people, the planet and prosperity was acclaimed through numerous awards and accolades. CTC was recognised as one of the "Top 10 Corporate Citizens" by the Ceylon Chamber of Commerce at the Best Corporate Citizen Sustainability Award. CTC also won the category award for "Best Employee Relations" for the second consecutive year, further strengthening our reputation as one of the best employer brands in Sri Lanka. Our financial strength and value of the corporate brand received recognition with CTC being placed third on the prestigious Business Today Top 20 during this financial year, whilst also being listed ninth on LMD's 100 Most Respected Corporates in Sri Lanka. I believe that these accolades validate CTC's commitment to delivering the triple bottom line.

Q:

CTC has consistently been a key source of revenue to the National Economy. Was this stance further upheld in 2014?

A:

CTC is the largest contributor to National revenue and has been so for many years. Despite the many challenges and pressures faced in 2014, your Company infused Rs. 73.6 billion to the National Exchequer amounting to approximately 8 per cent of the total government revenue. However, we must take note that the Government's income from cigarettes came under pressure during the year due to the rise in non-regulated tobacco products such as beedi, and will continue to remain under pressure if such sources are left unchecked.

Q:

Looking forward what challenges and opportunities do you foresee for 2015?

A:

Both challenges and opportunities will arise in the future. As I noted previously, we are a Company that succeeds in the face of challenges through business innovation. We also embrace opportunities with enthusiasm and realize potential through inspired action. Our Corporate Governance structure and our passion for transparency in reporting have placed CTC at the forefront of corporate excellence. Our goals and strategies are globally aligned to that of BAT Group and as a result, we are able to benefit from tested and proven processes that work well, from sourcing material to innovative adaptations.

The right combination of global and local brands, break-through productivity initiatives and responsible corporate behaviour together with our formidable talent pool have formed the base for CTC's success today and in the future. Going forward, we remain optimistic and ready for both challenges and opportunities.

Q:

What would you like to say in conclusion?

A:

Let me take this opportunity to extend my warm appreciation to the Chairman and the Board of Directors for their guidance and foresight and for their consistent support towards making CTC an organization of excellence. Thank you, CTC team for creating value across the business for our shareholders and all our stakeholders.

Felicio Ferraz
Managing Director and Chief Executive Officer

11 February 2015

The Board of Directors

(From left to right)

Dinesh Weerakkody
Director

Premila Perera
Director and Audit Committee Chairperson

Felicio Ferraz
Managing Director and Chief Executive Officer

Susantha Ratnayake
Chairman

Stephan Matthiesen
Finance Director

Syed Javed Iqbal
Director

Kenneth George Allen
Director
(Not shown in photograph)

Susantha Ratnayake

Susantha Ratnayake, the Chairman of Ceylon Tobacco Company PLC is also the Chairman and CEO of John Keells Holdings PLC. He is also the Chairman of the Employers Federation of Ceylon, the Immediate past Chairman of the Ceylon Chamber of Commerce and a past Chairman of the Sri Lanka Tea Board. He was appointed to the Board of Directors of CTC in October 2006, and took over as Chairman in March 2013.

Felicio Ferraz

Felico Ferraz was appointed to the Board of Directors of Ceylon Tobacco Company PLC in March 2013 as the Managing Director and Chief Executive Officer. Felicio started his career in Souza Cruz, a BAT subsidiary in Brazil as a Marketing Trainee. After several roles in Trade Marketing and Brands, he took over as Marketing Director at BAT Cuba. He has also worked at BAT Caribbean & Central America as the Country Manager of the Caribbean Islands and of Costa Rica, Guatemala and Dominican Republic.

Felicio holds a Bachelor's degree in Mechanical and Industrial Engineering from the PUC-RJ, a Business Administration degree from the Estate University of Rio de Janeiro and a post-graduate degree in Strategic Marketing from Darden University, Virginia – USA.

Dinesh Weerakkody

Dinesh Weerakkody was appointed to the Board of Directors of Ceylon Tobacco Company PLC in July 2014. He is the former Chairman of Commercial Bank of Ceylon and also is a former Chairman/CEO of the Employees' Trust Fund Board of Sri Lanka. He serves and had served in a number of government and private sector boards. He is also a Vice-President of the International Chamber of Commerce, Sri Lanka Chapter and a Vice-President of Sri Lanka Tennis.

Dinesh was also Advisor to the Prime Minister of Sri Lanka from 2002-2004 and has served in many Cabinet sub-committees and National level committees on Economic Affairs, International Affairs and Labour Management. During his public sector career, Mr. Weerakkody engaged pro-actively and innovatively in economic, trade, labour and cultural matters in both bilateral and multilateral contexts.

From 2005-2009 Mr. Weerakkody was a Council Member and 2008-2009 Chairman Employer Relations, CIMA Sri Lanka Division. He is a Graduate in Business Administration, an Associate of the Chartered Institute of Management Accountants United Kingdom, Fellow Member of the Certified Management Accountants of Sri Lanka, Professional Member of the Singapore Human Resource Institute and has obtained an MBA from the University of Leicester, England. Mr. Weerakkody has received extensive Leadership, HR, and Management training in the UK, USA, France, Japan, Singapore and India. He has been on the Sri Lankan Board of GlaxoSmithKline Sri Lanka since 2000 and is Chairman of Cornucopia Lanka Ltd. and Director/Advisor of Cornucopia Bangalore, India.

Dinesh has published widely on HR, Leadership, Management, International Relations and development issues, and also has been involved in large-scale research projects in the USA and has presented many papers at national and international level. He is a recipient of many awards, including a Jaycees Ten Outstanding Young Persons Award in 1999 and an International Associations of Lions Clubs National Achievers Award in 2008.

Premila Perera

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

Syed Javed Iqbal

Javed Iqbal has been with British American Tobacco for the last 19 years. He joined the Company as a Management Trainee and has held various key positions in the Finance function in Pakistan as well as with British American Tobacco Group. He was appointed as the Finance Controller at BAT South Korea and later as Finance Manager for Global Marketing at Global Headquarters in London. In 2011, Javed was appointed as Finance Director for Swiss Business Unit looking after five European markets based in Switzerland. He returned to Pakistan in 2014 as the Director Finance and IT. Javed joined Board of Directors of Ceylon Tobacco Company PLC in May 2014. Javed has an MBA with majors in Finance and MIS.

Stephan Matthiesen

Stephan Matthiesen was appointed to the Board of Directors of Ceylon Tobacco Company PLC as the Finance Director in July 2014. He started his career in British American Tobacco Germany as a Finance Management Trainee in 2005. After several roles at BAT Germany, he moved to Amsterdam (Netherlands) where he took over the role of Marketing Finance Manager for Western Europe. He then went on to become the Head of Marketing Finance for Belgium, Netherlands and Luxembourg. Before taking over the Finance Director role at CTC, Stephan spent two years in Tokyo as Commercial Finance Controller for BAT Japan.

Stephan is a Chartered Accountant and holds a Masters in Finance degree from the University of Western Sydney as well as a degree in Business Administration from the University of Applied Sciences Kiel in Germany.

Kenneth George Allen

Kenneth Allen was appointed to the Board of Directors of Ceylon Tobacco Company PLC in October 2014. He has 25 years of experience in the tobacco industry. He started his career with Rothmans in Australia in 1988 as a Management Accountant. In 1999 he moved to British American Tobacco (BAT) and since then he has held number of senior finance appointments in BAT which include Operations Finance Manager and Corporate Finance Manager for BAT New Zealand as well as Supply Chain Finance Manager and Financial Controller for BAT Australasia. Presently he is the Head of Regional Operations Finance for BAT and is based in Singapore.

Kenneth holds a degree in Commerce with Accounting Major from University of Western Sydney and is a Qualified Certified Public Accountant of Australia (CPA).

The Executive Committee

(From left to right)

Stephan Matthiesen
Finance Director

Felicio Ferraz
Managing Director and Chief Executive Officer

Rajiv Meewakkala
Marketing Director

Shah Mansoor Khalil
Supply Chain Director

Samanmali Chandrasiri
Human Resources Director

Ranjan Seneviratne
Legal Director and Company Secretary

Dinesh Dharmadasa
Corporate and Regulatory Affairs Director

Distributors and Suppliers

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

Distributor List

Distributor	Length of Relationship (Years)
Colombo	
Arunadisi Ltd	86
W.D. Paulis Appuhamy & Co.	82
Samaranayake & Co. (Pvt) Ltd.	63
Jaywardene & Sons	30
Excel Distributors (Pvt) Ltd	10
South	
S.U. Mohamed Hadjiar (Pvt) Ltd	83
K.M. Siyaneris (Pvt) Ltd	83
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	83
Wickramaratne Distributors (Pvt) Ltd,	28
Central	
Bibile Trading & Forwarding Agency	70
Gamani Bros Ltd	58
Ampara MPCS Ltd	50
Amirthans Distributors (Pvt) Ltd	28
North	
D.S. Gunasekera Ltd	58
G.H.A. De Silva & Co.	58
Kurunegala Merchants Ltd	48

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

Main Supplier List

Supplier	Country	Length of Relationship (Years)
Foreign Suppliers		
Benkert Malaysia SDN BHD	Malaysia	1
Tann Papier G.M.B.H	Austria	31
Daicel Corporation	Japan	26
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	26
Arets Graphics	Belgium	5
Indian Tobacco Company Limited	India	15
General Metallisers Limited	India	15
Anzpac Services (Australia) Pvt Ltd	Australia	14
Tann Philippines Inc.	Phillipines	10
PT Argha Karya Prima Industry,TBK	Indonesia	9
Siegwerk Switzerland AG	Switzerland	9
P T Bukit Muriya Jaya	Indonesia	6
Tien Wah Press	Malaysia	6
Payne India (Pvt) Ltd	India	3
Amcor Tobacco Packaging	Malaysia	5
Sun Chemicals - Switzerland	Switzerland	3
Henkel Adhesives Technologies India Pvt.Ltd	India	4
Package Limited	Pakistan	1
Local Suppliers		
Aitken Spence Printing and Packaging		22
Ceylon Tapes (Pvt) Ltd		16
Packwell Lanka Limited		15
PrintCare Packaging (pvt) Ltd		8
JF &I Packagiing		2

Our Teams

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

The Security Union

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

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

The Barn Owners' Association

A Century of Sustainable Practices

For over a century, CTC has fostered a corporate ethic that is built on the principles of sustainability. We have nurtured the many stakeholders who have partnered with us on our journey, empowering, enriching and instilling global standards and inspiring corporate excellence.

Our vision on sustainable business lies firmly in addressing the key business related impacts - social, environmental and economic - in a way that builds stakeholder and shareholder value. In essence we believe that sustainability is an act of balance, a mutual inclusiveness of commercial, social and environmental sustainability.

With the introduction of tobacco as a commercial crop in the early 1950's, CTC entrenched itself in the rural farming

We strive to create synergies across our value chain, developing people, preserving the planet and ensuring prosperity for the nation and our stakeholders.

communities of Sri Lanka, pioneering sustainable agriculture in the country. As a socially responsible corporate, we led the way many decades ago instilling the seeds of sustainable practices, long before 'sustainability' gained ground as a corporate buzzword. This defines the authenticity of our sustainability model, given that it has evolved with our business practice in an intuitive and mutually inclusive manner. These hundred years of responsible business has endowed us with an insightful perspective to understand and design forward-thinking sustainable practices that complement both our corporate strategy and National priorities.

Our Sustainable Business Strategy

BAT Group's strategy, the 'BAT Way' defines our approach to deliver shareholder value. It enables us to deliver growth today, while creating long term value for our stakeholders.

Our Company imbibes the Guiding Principles of; Enterprising Spirit, Freedom through Responsibility, Open Minded and Strength from Diversity as the very foundation of a sustainable business. We strive to create synergies across our value chain, developing people, preserving the planet and ensuring prosperity for the nation and our stakeholders. Borrowing from the Group's sustainability philosophy and modulating our approach to best-fit our requirements, we ensure that CTC's business strategy is aligned with BAT Group's global strategy for sustainability.

Our strategy to deliver shareholder value the 'BAT Way'

Our enhanced Group strategy reflects our new vision to be the "World's best at satisfying consumer moments in tobacco and beyond". Informed adult consumers are at the core of everything we do and our success depends on addressing their evolving concerns, needs and behaviours. This strategy enables our business to deliver growth today, while ensuring we generate the funds to invest in our future. It also guides our behaviours and activities, helping us maintain a sustainable approach that will guarantee our future as a twenty-first century tobacco business.

This Group strategy, with sustainability as one of its key pillars, demonstrates our continued commitment to build shared value for our shareholders and society.

www.bat.com/strategy

Alignment to National Priorities

CTC's business strategy is directly aligned to National priorities across many fronts. As the single largest tax contributor, CTC plays a key role in the economic development of the country through the infusion of over Rs.73.6 billion to government revenue in 2014.

Over the years, CTC's business strategy has served to support National priorities. Directly and indirectly we have fostered economic empowerment through the infusion of capital into rural farming communities, sharpening the capacities of trade and enriching supplier wealth creation. From a CSR stance, our strategy has and continues to be aligned with state priorities in targeting and delivering initiatives aimed at poverty alleviation, rural empowerment and enriching community life.

Approach to Corporate Social Responsibility

CSR is one element of our overall approach to sustainability. It includes initiatives and projects beyond our commercial and legal obligations that contributes to the economic, social and environmental sustainability of the communities we operate in.

The importance of responsibility and sustainable practices is exemplified by CTC's approach to sustainable corporate behaviour. CTC stresses on the importance of transparency and accountability when undertaking CSR initiatives and as such has set up Outreach Projects (Guarantee) Limited to execute and oversee such initiatives.

Outreach Projects (Guarantee) Limited

Established in December 2007, Outreach Projects (Guarantee) Limited operates with a well-designed organisational structure that reports to its Board of Directors.

As per its mandate of greater transparency, an eminent Board of Directors comprising Susantha Ratnayake (Chairman), Graeme Amey (Director), Felicio Ferraz (Director), Ali Nazeer (Director) and Dinesh Dharmadasa (Company Secretary) oversees the activities of Outreach.

The Board meets a minimum of twice a year, where the present and future strategy of Outreach is discussed and reviewed. Its performance is managed by the Group at regional and local levels through combined Audit and CSR Committees.

CTC's CSR Steering Committee is chaired by the Chairman and consists of five members of the senior management. Evaluating an array of environmental and community issues and based on stakeholder dialogues, the Committee determines the most appropriate areas of CSR that best fit the National priorities and the Company's philosophy of sustainability. However, it is also our premise that Corporate Social Responsibility is the obligation of everyone at CTC, and encourage employee participation through staff CSR campaigns conducted regularly.

CSR Themes

Our CSR agenda is reflective of three key global themes adopted by the Group and we focus our activities around them.

- Sustainable Agriculture and Environment:

  This theme covers contributions to the social, economic and environmental sustainability of agriculture. It also includes activities to enhance livelihoods in rural communities and other environmental projects that are not related to agriculture.

- Empowerment :

  This theme focuses on providing training, education and opportunities to help people develop their skills and health/social welfare services for those in need and assisting towards enhancing civic life through better governance.

- Civic Life:

  This theme encompasses activities that aim to enrich public and community life, including supporting arts and educational institutions, conserving indigenous cultures and restoring public cultural spaces.

Since 2005, CTC has also strived with fortitude to contribute towards the Millennium Development Goal No. 1: Poverty Alleviation. Its focus on this agenda has earned the Company accolades as the driver of one of the most comprehensive and effective sustainable livelihood development programmes in the world, through the Sustainable Agriculture Development Programme (SADP). Today, SADP is one of the largest private sector CSR initiatives in Sri Lanka.

Stakeholder Engagement

CTC believes in creating and maintaining mutually beneficial and sustainable long term relationships with its stakeholders which include employees, shareholders, farmers, suppliers, consumers and partner communities. Therefore, we fashion our sustainability approach on stakeholder engagement and operate in an open and transparent manner, by consistently listening and responding to our stakeholders on issues that matter to them.

The Company maintains an environment conducive to stakeholder engagement; their contributions, views and perspectives valued and they are empowered to raise issues of concern. From employee inductions to supplier dealings, the notion of engagement is a sound principle that is given the highest priority. The Company not only encourages involvement but also seeks opinions through constructive dialogue, active listening and incorporates suggestions for improvement whenever and wherever possible.

Harm Reduction

Harm reduction is an integral part of the Group's global sustainability strategy and a key component of its long term business sustainability. Dialogue with consumers and the public health community have indicated that developing less harmful tobacco products is an important aspect of responsibility. On a global scale the Group has responded by way of product-based harm reduction activities and is committed to developing and testing novel technologies with potential to further reduce tar and toxins.

BAT seeks to work constructively with regulators, scientists and public health groups to establish standards for evaluating how new developments might contribute to a reduced harm approach as well as to agree on appropriate messages for consumers about novel products and technologies.

The Group's main focus is on developing two types of innovative products: nicotine products, including e-cigarettes; and tobacco heating devices, believed to have the greatest potential to reduce smoking related diseases.

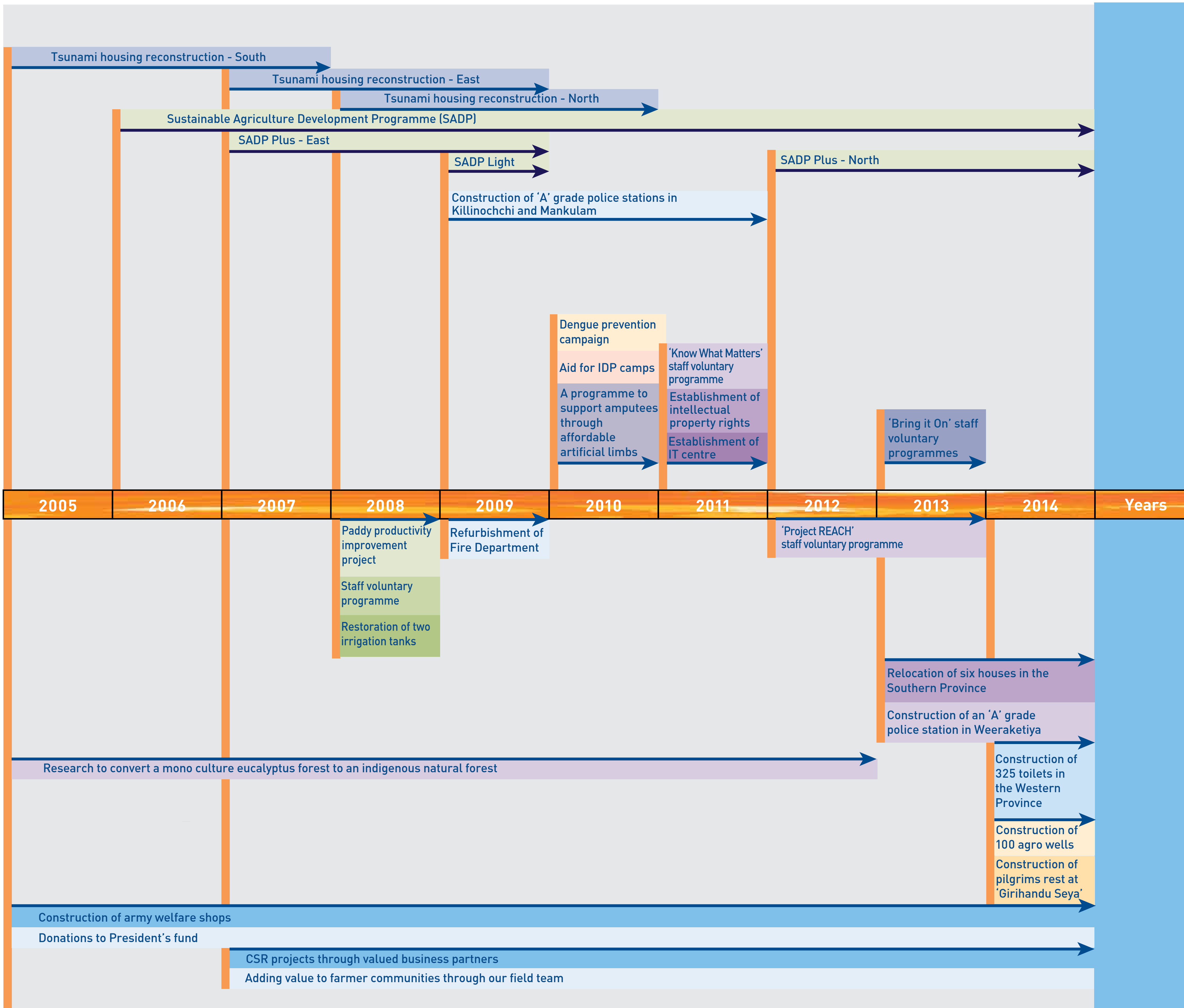
BAT invests over

£160 million

annually on harm reduction R&D

Committed to the upliftment of society

10 Years of CSR →



Over the past decade CTC contributed **Rs. 1.0 billion** in Corporate Social Responsibility initiatives

CSR is one element of our overall approach to sustainability.
It includes initiatives and projects beyond our commercial and legal obligations that contribute to the economic, social and environmental sustainability of the communities we operate in.

Our sustainability agenda is reflective of the CSR themes adopted by BAT Group. We focus our CSR activities around three key themes: Sustainable Agriculture & Environment, Empowerment and Civic Life.

Products

Growth, the strategic pillar that determines the momentum and magnitude of the business, is a key driver of dynamic innovation across the enterprise. In the year 2014, CTC furthered its drive towards dynamic innovation with a view to enlarge consumer value creation. With the intent to build value across our portfolio, we injected powerful innovation to our premium and aspirational premium offers, creating value and the opportunity for unique consumer moments.

We believe that strong brands supported by strong distribution networks and insightful adult consumer know-how will ensure that we deliver on the growth requirements for the future, retaining and re-inventing our ability to create value, as we have done for generations. 2014 has been a year dedicated to anticipating and working towards building a strong foundation for future growth by enhancing our brand portfolio and trade marketing and distribution efforts.

Our world – responsible, open and transparent	The BAT Group invests over £160 million per year on research and development, conducted by over 300 scientists.	Our products are only sold to adults over 21 years of age, and contained in packaging that carries a health warning and a statement of the TAR and Nicotine content.	CTC's marketing activities are regulated under the National Authority on Tobacco and Alcohol (NATA) Act No.27 of 2006 and our parent Company's voluntary marketing standards - 'International Marketing Principles' - which are in certain aspects more restrictive than local legislation.	While domestic cigarette volumes declined by 11 per cent in 2014, we witnessed a growth in beedi volumes. Beedi now accounts for 42 per cent of the total tobacco market.

Driven by the need to rejuvenate the JPGL brand and further infuse value to our loyal consumers, CTC undertook a pack modernisation initiative in 2014.

The Company successfully introduced two premium priced variants to further strengthen the image of the brand, which included the introduction of capsule technology - JPGL Click.

DUNHILL

Dunhill SWITCH continued to deliver significant value to CTC's premium range, accounting for over 65 per cent of the total Dunhill volume.

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

Infusing Innovation for Growth

In a challenging economic environment, further compounded by drought conditions that plagued much of the financial year, CTC witnessed a 11 per cent contraction in domestic volumes stemming primarily from rural markets. Within the context of these economic and market pressures, our strategic intent during the year was to infuse dynamic innovation in a bid to enhance value creation across our premium and aspirational premium ranges. As in 2012 and 2013 we continued to explore measures by which we could expand our premium base through up trading, by further leveraging the results garnered through the introduction of the capsule filter.

During the financial year, we extrapolated our success with Dunhill SWITCH to create a limited edition value offer. This materialised in the form of Dunhill ICE, conceptualised to offer two levels of mentholated experience; one of regular mentholation and the other of a boosted menthol experience through the utilisation of 'SWITCH' technology. Dunhill ICE was offered to the market at a premium price, for a limited time frame, with the intent to revitalise the market and consumer interest. The initiative from a product marketing perspective served its role; enhancing brand appeal whilst ingraining the association of continuous innovation with the Dunhill brand. Dunhill SWITCH now accounts for 65 per cent of the Dunhill volume.

Our intent during the year was also to take the lessons learnt from the success of Dunhill SWITCH to re-invigorate the next tier brands. Hence, in 2014, we cascaded dynamic innovation in product development to excite the JPGL consumer base, with the launch of JPGL Click. With the offer of 'SWITCH' technology to a more broad-based market, the innovation proved to be immensely successful, serving to enlarge the JPGL franchise with the creation of a unique consumer base for the 'Click' variant, resulting in the expansion of the capsule market.

JPGL also underwent a pack modernisation initiative in 2014. Driven by the need to rejuvenate the brand – in the context of 9 per cent year on year decline evident between 2013 and 2014 – a pack upgrade was carried out to add excitement around JPGL. A smooth transition into the new pack was achieved during the year. Cumulatively, these three value creation initiatives enabled CTC to overcome the formidable challenges of the marketplace.

Value Driven Distribution

CTC recognises the criticality of a dynamic and productive trade marketing and distribution strategy. During the year under review, steps were undertaken to further enhance the efficacy and effectiveness of CTC's distribution channels through the integration of value to our efforts on the ground. Our distribution reach currently stands at 52,000 outlets.

Our strategic intent during the year was to infuse dynamic innovation in a bid to enhance value creation across our premium and aspirational premium ranges.

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

As a responsible tobacco company, CTC is committed to producing high quality tobacco products that comply fully with local regulations.

Our trade loyalty programme 'Abhisheka' was revamped in 2014, and has a base of 3,800 outlets. 'Abhisheka' is an innovative programme that links a range of suppliers to the trade network and offers benefits. The programme has served to further strengthen trade loyalty towards CTC.

In 2014, we also undertook a comprehensive Route To Market Excellence (RTMX) study. The initiative focused on conducting a detailed study of the retail universe, deriving qualitative insights and quantitative findings. Our intention, going forward is to utilise the outcomes of the study to shape and strengthen our trade marketing and distribution efforts, with the intention to enhance efficiency, visibility and trade automation. The expectation will be to execute strategic changes – based on the RTMX study – by the second quarter of 2015.

Gearing for Change

Our products are only sold to adults over 21 years of age, and contained in packaging that carries a text health warning and a statement of the TAR and Nicotine content, both printed in all three languages. In 2014, we witnessed the introduction of regulatory changes that prescribed PHWs to cover 60 per cent of both the front and back pack facings, which came into effect on 1 January 2015, with traders and retailers allowed an extended period of 30 days to exhaust stocks already in the market. In the aftermath of these new regulations, the marketing team geared up to make this critical transition in a smooth and effective manner [Global Reporting Initiative (GRI) PR03].

In the sphere of people development for the marketing function, we rolled out 'POSITIVE' during 2014. The programme is a premier marketing leadership initiative that falls under the aegis of BAT. As a global marketing programme, 'POSITIVE' strives to develop core skills and constitutes of modular-wise sessions which aims to align leadership attitudes in order to deliver better business results. The programme was rolled out initially to Trade Marketing Executives and was facilitated by CTC and BAT experts to offer a localised learning experience. At the end of the financial year, CTC protracted the programme to over 400 distributor representatives to further strengthen their marketing skills and capabilities.

Consumer-Centric Processes

CTC employs a dedicated consumer satisfaction hotline, is contactable via email and collects feedback through Distributor Representatives and Trade Marketing Executives. Every single input is considered important and discussed at a daily meeting attended by the operations team and points of action are escalated through multiple-levels up to the MD and CEO. This allows for manufacturing process owners, product managers and the marketing team to draw insights from the feedback and collaboratively work towards product improvement and development.

which essentially bans all forms of advertising, promotion and sponsorship except in a few limited instances. In addition, we also follow the rules set out in our parent Company's voluntary marketing standards, 'International Marketing Principles', which are in certain aspects more restrictive than local legislation. Steps taken to ensure compliance with the law and voluntary standards include, all marketing activities being approved prior to execution by the legal and regulatory team and training and awareness programmes being conducted for Trade Marketing Executives, and traders (GRI PR06).

We also follow the rules set out in our parent Company's voluntary marketing standards, 'International Marketing Principles', which are in certain aspects more restrictive than local legislation. Steps taken to ensure compliance with the law and voluntary standards include, all marketing activities being approved prior to execution by the legal and regulatory teams.

The BAT Group - which we are a part of - invests over £160 million per year on research and development, conducted by over 300 scientists. The results and knowledge gained from these studies are refined and incorporated across the Group. This enables us to keep abreast, with not just evolving trends, but also the latest in improving our products, both in terms of quality and harm reduction. As a responsible tobacco company, CTC is committed to producing high quality tobacco products that comply fully with local regulations. Research conducted by BAT ensures that relevant product science and actual product assessments of the components, materials and ingredients used in the manufacture of products are monitored. Following the launch of new products in to the market, the Company conducts a consumer survey to gauge the acceptance; perception and any complaints that would allow CTC to further improve product quality. (GRI PR01).

CTC's marketing activities are regulated under the National Authority on Tobacco and Alcohol (NATA) Act No.27 of 2006,

In 2014 we witnessed a rise in our investment on research (conducted by independent third parties), which ranged from pulse audits to ritual studies to blend innovation studies. Research focused on gauging market perceptions, as well as preferences as a whole. This year's research activities by the BAT Group placed a lot of emphasis on alternatives to combustible tobacco, a key part of our global harm reduction strategy.

Implications of Beedi

In 2014, we witnessed a worrisome trend as beedi tripled in volume and now accounts for approximately 3.2 billion sticks while domestic cigarette volumes declined by 11 per cent. Largely, the prevailing economic conditions in rural Sri Lanka triggered this growth, as disposable incomes dipped in the face of a long-standing drought. Whilst we strived to counter the effects of beedi through the expansion of our distribution into deep rural markets, coupled with the expanded distribution of our value for money portfolio, pricing continued to be a contributory factor in pushing the case for beedi. With our lowest valued brand being five times the price of beedi, we continued to remain uncompetitive and this phenomenon has undermined the cigarette sector thereby reducing government revenue.

Future Outlook

The external environmental and economic factors will continue to play a critical role in our performance in 2015. However, we are confident that the existing platforms for growth will persist towards adding value to our expectations. We will put innovation to the fore in reconfiguring our role in the marketplace, and continue to strategise towards sustained growth. Our intention, in moving forward will be to present our offer in a responsible manner – within acceptable parameters and guidelines.

People, Planet, Prosperity

In over 100 years of successful operations in Sri Lanka, we have understood that sustainable business is not just about fulfilling corporate must dos; it is about going beyond commercial and legal obligations to contribute to economic, environmental and social sustainability.

Sustainability and good governance form the core of CTC's business operation; values and commitments that have endured over a century of excellence. As an industry perceived as controversial, we have always demonstrated our constant commitment to meet reasonable stakeholder expectations and remained committed to deliver value. We achieve this through continuous engagement and dialogue with all stakeholders.

We maintain an open and transparent environment in how we report and communicate our performance. CTC was the first corporate to publish a sustainability report as far back as 2002, a practice we continued by subsequently integrating the Global Reporting Initiative (GRI) to the Company's annual report. In 2014, we formed a cross functional committee to bring together the relevant expertise in the areas pertaining to indicators reported under the GRI and have made every effort to present a comprehensive set of information to our stakeholders. Information on relevant indicators has been presented under the sections of Product, People, Planet and Prosperity.

Our sustainability ethos underpins all areas of our operations and approach to business, driving us to continuously strive for sustainability all-round.

CTC's commitment to People, Planet and Prosperity was recognised in 2014.

As a testament to our investment in creating and sustaining an optimum working environment to develop the best talent, the Great Place to Work Institute ranked CTC amongst Sri Lanka's 'Top 15 Best Companies to Work For - 2014'.

Our financial strength and value of the corporate brand received recognition with CTC being placed third on the prestigious 'Business Today Top 20' during this financial year.

CTC was also recognised as one of the 'Top 10 Corporate Citizens' in Sri Lanka by the Ceylon Chamber of Commerce at the 'Best Corporate Citizen Sustainability Award 2014'. The Company also won the category award for 'Employee Relations'.

People

Generations of value have accrued as a result of the many thousands that have been and continue to be the backbone of our business and the lifeline of our strategy. They are clearly the advantage that makes CTC a winning organisation.

Training

The Company's investment on training rose by 20 per cent to Rs. 17 million in 2014.

Employees

We recognise that our people are key to the creation of a winning organisation.

Diversity

In 2014 CTC maintained 17 per cent female representation in the management carder.

Our Foundation

For over a century, CTC's success as a corporate has pivoted on one key factor - the human factor. The very people that define it – the CTC family, have woven the fabric of the Company's existence over decades, intricately and with care.

Generations of value have accrued as a result of the many thousands that have been and continue to be the backbone of our business and the lifeline of our strategy. They are clearly the advantage that makes CTC a winning organisation. The right people and the right working environment have set the stage for the Company to achieve its corporate vision.

In 2014, our people continued to be key to our strategy execution. As a testament to our investment in creating and sustaining an optimum working environment to develop the best talent, the Great Place to Work Institute ranked us amongst Sri Lanka's 'Top 15 Best Companies to work for - 2014'. We also won the category award for 'Employee Relations' presented by the Ceylon Chamber of Commerce at the Best Corporate Citizen Sustainability Awards for the second consecutive year in 2014, further reinforcing our position as one of the top employers in Sri Lanka.

Mapping the Global Strategy

People are an area of strategic priority for the BAT Group, which recognises the role of people as key to the creation of a winning organisation. The criticality of people to the corporate strategy is reflected in that, BAT's Guiding Principles focus primarily on people as the fundamental core of the corporate.

Having a talented workforce has become one of the most critical factors in all industry sectors. Therefore we embarked on creating a winning organization focusing on the three key areas of recruiting and retaining excellent people, developing engaged teams and creating a great place to work.

CTC adopts a unique Human Resource (HR) approach that is best defined by the growth opportunities that it offers employees. The main thrust of CTC's HR strategy is focused on developing people to be world-class professionals. Such investments are not only made to ensure a talented team is developed to take the business forward, but also to export Sri Lankan talent to the wider BAT Group to provide global career opportunities for our people. Thus, recruitment, development and retention strategies are invariably dependent on attaining a globally fit local workforce. The progressive work culture and a focused succession planning process have enabled CTC to produce a cross-section of corporate success stories.

Strategic Approach to Develop Human Capital

Our approaches to face the challenges of the talent market and talent development are truly the links of a longer chain. CTC's focus is on driving high performance; allowing our people to unleash their true potential; developing the next generation of leaders by ensuring we have a sustainable leadership pipeline in place; valuing the diversity of our employees; encouraging and rewarding entrepreneurial behaviour and creating an engaging culture where individuals and teams can thrive.

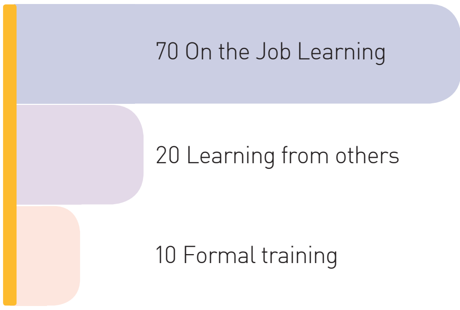
We recognise the need to foster a confident culture that embraces change and innovation and understand the necessity to broaden our talent base to shape a new pool of future leaders. Creating a culture of continuous enterprise-wide learning that encourages dialogue, sharing of knowledge and individual pursuit of innovation within the context of our vision, has permitted us to create an environment that enables every employee to work towards a common goal.

Providing a safe place to work, protecting our employees' well-being and listening to their views are also fundamental to how we operate. We have and will continue to create a supportive culture founded on personal commitment and responsibility that attracts, engages and retains the most talented and diverse people.

Our Recipe for People Development

At CTC, corporate learning takes on a new definition. Our challenge is to grow our people and impart knowledge and skills on diverse areas of the business. We believe that specialisation in today's global business environment can stifle the spirit of an achiever. Cross-functional aptitude is key to understand the big picture, in visualising the future direction of the business. In 2014, the Company's investment on training rose by 20 per cent to Rs. 17 million, reflecting its commitment to people development.

Our learning philosophy hinges on a 70:20:10 approach.



Aimed at executive and management employees, our learning approach constitutes three steps that include gathering inputs, identifying strengths and development areas, as well as development options. This approach encourages self-drive and accountability for one's own development. On-the-job learning allows our employees to engage in cross-functional introductions and simultaneously interact with senior management while on rotation.

CTC conducted
22
formal training sessions covering

8,000+
training hours

In 2014, we undertook several programmes aimed at energising our teams and ensuring they have the capability and skills required to achieve our business objectives. In addition to these formal training sessions, we continued to provide mentoring and on-the-job coaching to facilitate continuous development. Employees were also encouraged to undertake e-learning, with access to the BAT intranet-based 'Talent Portal' which provides accessibility to functional and leadership development training sessions and exposes our people to a variety of learning material and methods. (GRI LA11)

The Company's structured Management Trainee Programme (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 MTP 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 this Programme, the Company is confident of its role as an effective conduit for human resource development in the years ahead. In 2014, the MTP proved to be a key instrument in talent attraction at CTC.

The "Fast Track 15" internship (FT15) is one of the most recognised programmes in corporate Sri Lanka, conducted in collaboration with John Keells Holdings, and HSBC. FT15 2014, in its fourth edition, attracted both locally and internationally qualified undergraduates, giving them the opportunity to experience local corporate culture and corporate life.

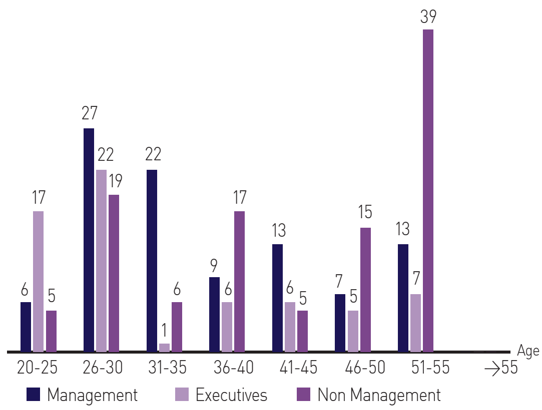
Diversity as Strength

CTC's employer philosophy of "Bring Your Difference" demonstrates the Company's determination to create a unique work ethic through the strength of diversity, shaping a corporate identity that mirrors the various facets of individual competencies. CTC as an entity is the amalgamation of diverse individuals and their attributes, all which synergises to drive the Company forward. We harness diversity, value the different viewpoints and perspectives of our employees and nurture a corporate culture devoid of bias.

CTC strives to maintain a healthy gender balance by actively driving a diversity improvement agenda. The management trainee, senior executive levels of the organization and functions such as the Corporate and Regulatory Affairs, Human Resources and Finance lead the way in the attraction and retention of female employees.

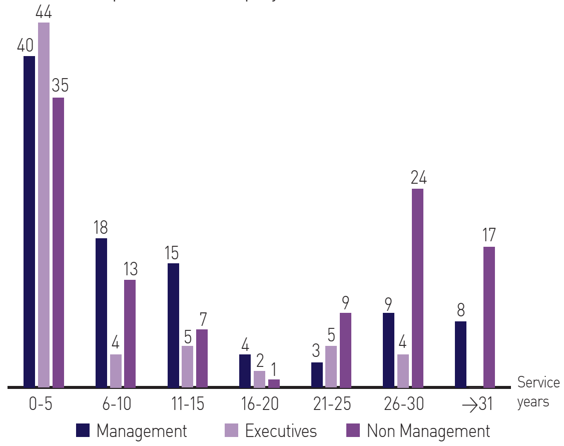
Age Profile

(Number of permanent employees)



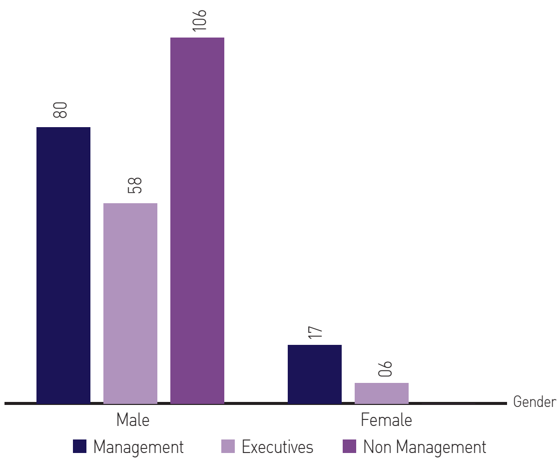
Service Profile

(Number of permanent employees)



Gender Profile

(Number of permanent employees)



New policies were formulated on gender diversity to improve female representation within the entity. These include enhanced maternity benefits such as flexible working hours for new mothers, which would give more opportunities and flexibility to our female workforce. Initiatives to strengthen gender diversity are apparent through the recruitment process itself whereby the Company strives to maintain a candidate pool with 50 per cent female representation. In 2014, with the appointment of two female employees in to the Trade Marketing and Distribution function, the Company opened up further avenues for females to join and succeed in a previously male dominated functions.

'Women-Inspire-Connect-Empower' (WICE) is a diversity network conceptualised by CTC's HR team and launched together with Nestle Lanka and Unilever Sri Lanka in 2014. It is the first collaboration of its kind in the country and its main objective is to promote the rights and interests of women as future leaders of their organisations. WICE's main role is to serve as a platform for growth and development of professional women in corporate Sri Lanka, through dialogue, knowledge sharing, training and policy discussion in relation to gender equality.

Mapping Future Capability Requirements

A constantly changing external environment together with shifting market paradigms requires us to be equipped to tackle more potent challenges and reap future opportunities. Therefore, it is imperative to grow and nurture the next generation of leaders. We continued to conduct the annual organisation-wide talent assessment process, aimed at matching individual capabilities to expected business requirements in the long term. The process, objectively, re-aligns the entire organisation structure unblocking the talent pipeline to optimally correspond the ideal talent with relevant functions. Infusing new thinking and attitudes, the exercise fuels the organisation's talent base, bringing traits of agility and innovation to the fore.

CTC pursued a number of strategies aimed at identifying and developing key people for local team succession. Planning ahead to make sure that the Company effectively retains the right people, we adopt a rolling strategy, evaluating the capability requirement and the talent in place to meet future corporate objectives.

CTC has been recognised as a Talent Hub with the capacity to export talent in the areas of Marketing, HR and Supply Chain. Focused and fit for purpose training on functional areas, as well as leadership capabilities, provides a platform for employees to easily adapt to demanding job requirements either in their existing role or one they plan to take on in the future. The Company develops employees to perceive challenges as opportunities, to learn and to evolve professionally.

CTC exported
10 people
to 06 countries
at management level

A Culture of Two-way Communication

Dialogue, employee engagement and participatory decision-making are fundamental elements that create a cohesive communication oriented culture at CTC. During the year under review, this cultural orientation was enriched and strengthened through a number of initiatives.

"Your Voice", a global BAT employee survey was conducted in 2014. Aimed at creating an environment where employees speak honestly about the Company and issues of importance to them, the survey explores topics that relate directly to our vision of a winning organisation. The survey - conducted biennially - benchmarks the Company against key internal and external best practices.

Internal communication is an integral part of CTC's people ethic because we firmly believe that through communicating corporate objectives we can instil ownership of these goals amongst our people. Our investment on internal communication in 2014 amounted to Rs. 3.5 million.

"One on One with ExCo" was introduced in 2014 to further improve two-way communication at CTC. Held as a series of monthly breakfast meetings hosted by the Executive Committee, these sessions enable the top management to update employees on activities and upcoming projects while employees are given the opportunity to ask questions and provide their feedback. The ambience of these sessions further enhances sound communication, camaraderie and trust among employees and senior management.

The "Bring it On" programme was continued during 2014 to further enhance employee relations and engagement, while increasing participation in key Company activities. Under this initiative, we devised activities that would enable employees from different functions to interact and collaborate on key business priorities, thereby increasing interaction between functions, expanding skills and cross-functional knowledge.

Workplace Equality

Equality is a key element of CTC's rich work ethic and in 2014 the Company launched several initiatives with the aim of further enhancing it.

As a part of improving employee relations within the Company, an Anti-harassment Campaign was conducted in collaboration with the Employers Federation of Ceylon (EFC). This campaign was held in conjunction with the launch of CTC's Anti-Discrimination and Anti-Harassment Policy, with the aim of creating and promoting an environment conducive for all employees to function within the Company devoid of any form of harassment. The Company's HR policies ensure that no discrimination will take place during hiring, promotion or retirement on the grounds of the employees' or candidates' race, colour, gender, age, social class, religion, smoking habits, sexual orientation, politics, or disability - subject to the condition that the inherent requirements of the role can be performed. We are happy to report that no incidents of discrimination have been reported during the past three years. (GRI HR04).

In 2014, CTC also took the Lanka Business Coalition on HIV and AIDS (LBCH) pledge to increase HIV and AIDS awareness among employees and a finalised plan is currently under execution.

Ownership Driven

CTC's success as a commercial enterprise are dependent on its exceptional and winning team. At every level and across the of the organisation, individuals work together with fixed focus on a common set of goals. To sustain the value chain from "Crop to Consumer", the CTC team works with commitment and drive, accepting change and innovation as a way of life. Though being unionised, CTC remains one of the few organisations where change initiatives are met with universal acceptance. In 2014, we once again demonstrated this our commitment to work cohesively towards the greater good of the Company, as we effectively implemented continuous strategic change initiatives.

During the year in review, the Company reaffirmed its record of operating with zero lost workdays due to industrial action. This was achieved with the fullest cooperation of the unions, who are progressive in their thinking and positively contribute to achieve all Company efforts.

CTC has been successful in maintaining sound relationships with unionised staff for over two decades without disputes. This relationship is further strengthened through a collective agreement which has shaped CTC's industrial relations agenda to be in sync with the Company's overall business agenda. It has also been a platform for sustainable, harmonious and cordial relations with employees. In 2014, nearly 40 per cent of CTC's non-executive workforce was covered by a collective agreement (GRI LA04).

To date CTC sustains one of the lowest staff turnover rates when compared to local benchmarks. Employee turnover during the year in review was 7.9 per cent (GRI LA02). Technology improvements and adopting best practices have resulted in creating opportunities to maintain a fewer number of multi-skilled employees rather than a large number of unskilled personnel.

CTC Works Hard - Plays Harder

CTC's annual dinner dance - Bollywood Night 2014

CTC Employees at the annual sport day

Commitment to Environment, Health & Safety

As a member of the BAT, CTC maintains the Group's Environment, Health and Safety (EHS) standards while complying with all relevant National laws and regulations. Borrowing from our Group EHS strategy we have implemented separate policies for Environment and Health & Safety allowing us to pay greater attention to both areas while delivering our overall business objectives.

In line with the Group strategy we have implemented an integrated EHS management system in a three pronged effort; to reduce the impact of work on the health and well-being of our employees, reduce our impact on the natural environment and create an open and transparent environment in communicating our performance. In the long term, we recognise that the successful implementation of an EHS strategy will direct us to a strata of improved corporate efficiency whilst delivering on our aim of doing business responsibly.

Reinforced Commitment to Employee Health and Safety

Our commitment to maintain a safe and healthy work environment is echoed in the Health and Safety (H&S) Policy, which is owned by the Executive Committee, implemented under the guidance of the Supply Chain Director and executed by a full time EHS Manager.

CTC has also set up an EHS Steering Committee with cross-functional representation as a measure to further strengthen its H&S management structure. This Committee meets on an annual basis to monitor the Key Performance Indicators and review initiatives in place to drive continuous improvements. The Company believes that all employees, regardless of their role or level within the organisation, have a part to play in maintaining a safe working environment. As such, departmental H&S Committees have been put in place with representation across levels to ensure employee participation in maintaining a robust risk management process (GRI LA06). Through the various initiatives undertaken in 2014, CTC was able to maintain a zero accident record during the year, completing 15 years devoid of lost workday case incidents at the Colombo Factory, 11 years in Trade Marketing and 05 years at the Green Leaf Threshing Plant (GLTP) in Kandy (GRI LA07).

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Health & Safety Policy

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

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

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

Felicio Ferraz
Managing Director & CEO
Ceylon Tobacco Company PLC
09 April 2013

Planet

We are committed to deliver on our consumer needs in an environmentally responsible, sustainable way and concern for the planet is fundamental to how we manage our business.

Farmers

We built 350 agro wells to help farmers severely effected by drought.

Biodiversity

We distributed and planted over 34,000 trees in 2014.

Rural Communities

Our flagship CSR initiative SADP benefited over 17,400 families across 16 districts.

Recycling

More than 80 per cent of our solid waste was recycled in 2014.

Commitment to the Environment

As a member of one of the most proactive tobacco companies in the world, we are committed to deliver on our consumer needs in an environmentally responsible, sustainable manner. Concern for the planet is fundamental to how we manage our business and pervades all our activities across the wider supply chain. CTC has long been recognised as a benchmark in environmental and biodiversity conservation, sharing our vision and best practices with the nation at large to create a meaningful contribution to environmental sustainability.

In 2014, we continued to focus on reducing our environmental footprint by minimising energy, water and raw material consumption while doubling efforts to improve waste management. As in the three previous financial years, we are pleased to note that no fines or levies were imposed on the Company for non-compliance to National laws and regulations. (GRI EN28)

During the year in review the Company unveiled 'Project ECO', to drive reductions in the overall energy footprint whilst targeting a 10 per cent reduction in electricity consumption The Project also focused on developing an energy conscious culture' at CTC through continuous awareness and introduction to best practices.

In 2014, 'Project ECO' delivered

Rs. 7.0 million

in savings through energy efficiency improvements

CTC expanded its existing 'Energy Hubs' system in 2014, bringing the total number to 51. This initiative has helped the Company identify high energy consuming areas and working together with process owners to implement targeted solutions to reduce consumption.

We invested Rs. 4 million on a new odour abatement plant during the previous financial year to mitigate odour emissions to the environment. The additional environmental benefit of the new plant is that it consumes significantly less water than before. Over the past two financial years, CTC also invested towards upgrading its effluent treatment plant with an extension of a tertiary treatment system at a cost of Rs. 4.3 million. Following this upgrade, the Company's consumption of fresh water for non critical activities reduced significantly.

> In 2014 we continued to focus on reducing our environmental footprint by minimising energy, water and raw material consumption while doubling efforts to improve waste management.

Recycling and re-using remained a significant means for reducing the environmental footprint at CTC in 2014. Process waste such as tobacco dust and confiscated cigarettes were sent to the GeoCycle Project to be used as an alternative fuel source. Waste from the green leaf threshing process was composted and distributed amongst our farmers to be used as fertiliser. Other waste such as discarded CFL and fluorescent light bulbs were sent to a Government approved recycling facility. In fact in 2014, more than 80 per cent of CTC's waste streams was sent for recycling or reuse.

CTC was one of the first tobacco companies in the world to use paddy husk, a biomass waste material for tobacco curing, eliminating the use of firewood. This tobacco curing process was identified as a best practice within the Group and replicated across key BAT markets.

Planet contd.

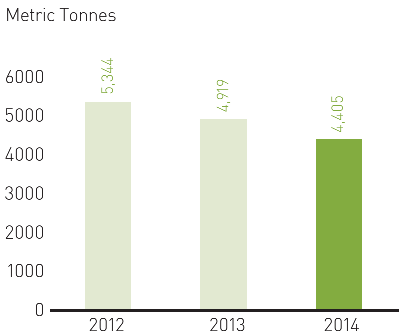
CTC's reforestation projects were pioneering initiatives aimed at creating an extensive long term impact on the natural and biodiversity resources of Sri Lanka. Our leaf department manages several initiatives across the Country, which contributes to forestry and biodiversity preservation and we inject our expertise in sustainable agriculture to educate farmers on greener practices. During the World Forestry Week conducted in 2014, we distributed a variety of trees with the aim of enhancing biodiversity.

Over 34,000
trees distributed and planted in 2014

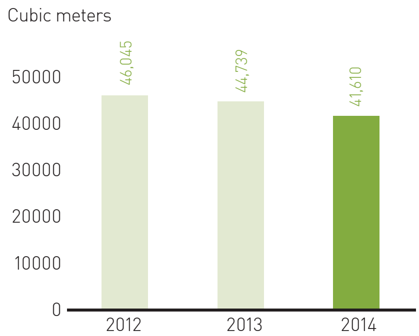
Our Environmental Performance

Resource Consumption

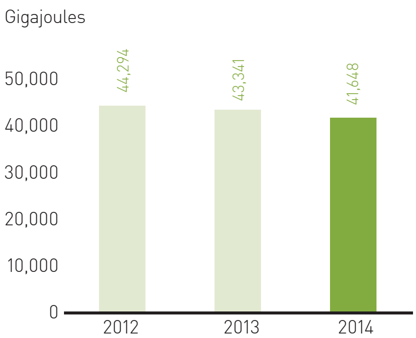
Materials used by weight (GRI EN 01)



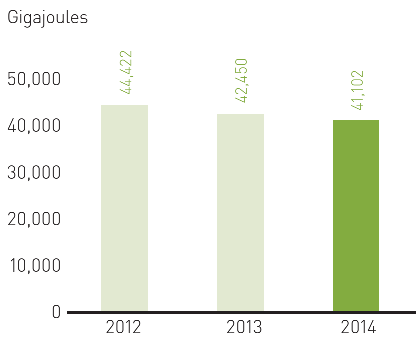
Total water used (GRI EN 08)



Direct energy consumption (GRI EN 03)



Indirect energy consumption (GRI EN 04)

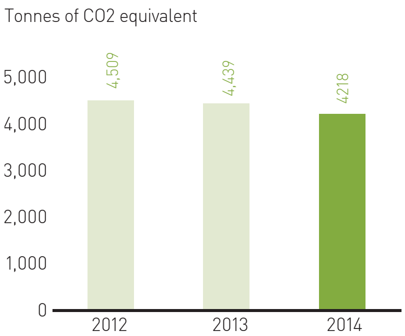


Note: Direct non-renewable energy sources reported here include diesel, furnace oil, kerosene and petrol consumed by the Company in its manufacturing and transport activities.

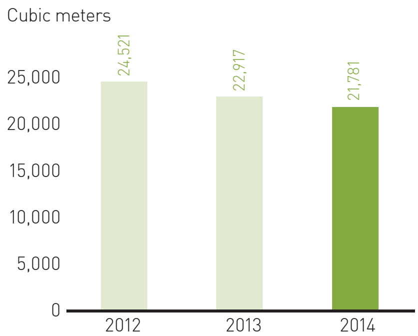
Note: Indirect energy used in terms of intermediate energy includes the amount of electricity consumed by the Company in its manufacturing and commercial activities.

Emissions, Effluents and Waste

Total direct and indirect greenhouse gas emissions by weight (GRI EN 16)



Total water discharged (GRI EN 21)



CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Environmental Policy

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

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

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

Agriculture

We are committed to:

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

Operations and Trade

We are committed to:

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

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

Felicio Ferraz
Managing Director & CEO
Ceylon Tobacco Company PLC

09 April 2013

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Biodiversity Statement

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

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

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

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

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

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

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

Felicio Ferraz
Managing Director/CEO
Ceylon Tobacco Company PLC
18 September 2013

Empowering Rural Communities

As a responsible corporate we believe that with our economic success comes a wider responsibility to add value to the communities around us. We have therefore taken a proactive approach towards sustainable development, with empowerment approaches that are unique in nature.

Sustainable Agriculture Development Programme

In 2006, CTC having considered the key National priority of poverty alleviation and recognising the Company's own expertise in agriculture decided to embark on a home gardening programme aimed at supporting families living below the poverty line. Thus, the Sustainable Agriculture Development Programme (SADP) was conceived and launched by CTC. SADP's objectives are aligned with Millennium Development Goal No. 1: Poverty Alleviation.

At the inception of the Programme over 3 million people lived below the poverty line, amounting to 19.2 per cent of Sri Lanka's total population making poverty alleviation a top priority in governmental and non-governmental planning for over thirty years. Significantly, poverty alleviation efforts had principally been in the form of direct assistance to affected parties and rarely packaged in a sustainable livelihood development model.

CTC's involvement with the rural community of Sri Lanka extended back in excess of fifty years, dating to an era of early commercial tobacco crop cultivation. As a commercial entity entrenched in the rural farming community, CTC had earned recognition for one of the best agricultural extension systems and was a pioneering exponent of the forward contract system. Our experience in knowledge sharing, technology input and perception development together with learning gleaned by way of previous Corporate Social Responsibility projects such as Sloping Agricultural Land Technology (SALT) project and tank restoration gave us an insightful perspective to understand and design an operational model for poverty alleviation.

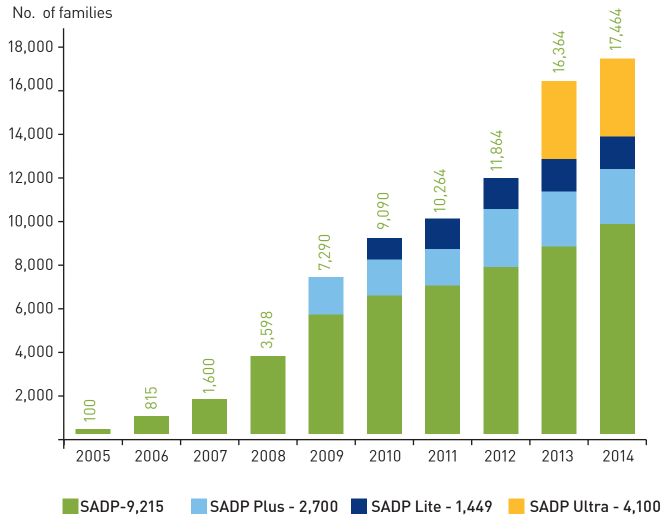
SADP is a unique concept developed by CTC based on the philosophy "helping those who are willing to help themselves". Built on precepts that differentiates the model from other poverty alleviation efforts, the SADP concept is based on knowledge transfer, creating a paradigm shift in attitude and a policy of no direct financial assistance but one off assistance through resources such as agricultural seeds, animal husbandry and skills. The focus lies in creating a long-term engagement between the beneficiaries and their avenue for reaching self-sustenance.

Vision of SADP

"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".

With a humble beginning in 2006, as a 100-family pilot project, eight years later, SADP has grown to impact over 17,400 families; totalling up to 67,002 beneficiaries across 16 districts of the country.

Growth of SADP over the years



Project Objective:

To implement the Programme amongst rural families and thereby alleviate poverty among these families in a sustainable manner, through or by

- providing a balanced meal - Improve nutritional intake from 1,429 calories to over 2,030 calories per day
- increasing the level of agricultural knowledge
- providing an additional source of income
- female empowerment
- enhanced land utilisation and land productivity
- promoting organic farming

Implemented by selecting rural families living below the poverty line, the first phase includes the introduction of basic techniques to reduce cost of fertiliser, maximise existing resources, conservation methods and the introduction of limited inputs such as seeds and poultry while the second phase introduces the beneficiaries to apiculture, animal husbandry and mushroom cultivation.

Key Features of SADP

1. Families are selected based on their commitment and capability to adopt and adapt to the technology and best practice transfers.
2. A mind shift is created in the participants to believe in their ability to make a better life for themselves.
3. No cash handouts.
4. Involves the entire farmer family.
5. The programme is designed to meet the household food and nutritional needs and the excess may be sold in the village market.
6. Productivity of the home garden is greatly enhanced.
7. Use of compost and Integrated Pest Management (IPM) eliminates the use of chemical fertilizers and pesticides.
8. Women are empowered and their significant role in each household is recognised.
9. The environment and ecology are protected.

As a consequence of SADP, we have noted beneficial results that have gone beyond the economic benefits directly yielded to the community. These include environmental conservation, mitigation of malnutrition, societal benefits (such as a decreased incidence of farmer suicide, alcohol abuse and gambling), female empowerment and the creation of a paradigm shift in perceptions and aspirations of these communities.

Benefits of SADP

Mitigating Malnutrition	Providing a balanced meal using organic food cultivated in their own home gardens.
	The programme improves the quality of health and the level of nutrition of the rural poor and further facilitates eradication of child malnutrition.
	The production of milk and eggs supports the essential nutritional needs of each household.
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	Happy and healthy households.
	The programme gives the adult members of the family the opportunity to be involved in productive activities. It leads to a more harmonious atmosphere amongst the village community.
Economic Benefits	Families fulfil their daily nutritional requirements by reaching self-sufficiency.
	Greater disposable income by trading their excess produce.
Creating Paradigm Shifts	Once the village families have achieved results of the programme and become self-sufficient, they gain the confidence to further improve their production, expand their cultivations and explore new markets.

Since its inception, SADP has evolved to meet new challenges along the way. Hybrids of the original programme were initiated to cater to specific demographic needs.

SADP Plus	An expansion of SADP, the programme comprises of 2,700 farmers selected from the Trincomalee and Kilinochchi districts at the end of the conflict. Selected farmers had access to more land than farmers of SADP. Thus, cash crops were introduced and beneficiaries were supported for two and a half years.
SADP Lite	Introduced to assist 1,500 ex-LTTE Combatants (beneficiaries) in imparting agriculture-related vocational training at the request of the Ministry of Rehabilitation and Prison Reforms. This programme was conducted at Kandakadu Government farm in the Polonnaruwa District. The duration of this programme was 12 months.
SADP Mega	Initiated in Suriyawewa, to boost the know-how of agricultural entrepreneurs in the Southern region. The project comprises of a 12-acre organic model farm that imparts and showcases agri-techniques ad best practices.
SADP Ultra	Launched with the objective of introducing leaf farmers to better crop management techniques and to promote the growing of other field crops. Spread across 07 districts, SADP Ultra will benefit 4,100 individual tobacco farmers and over 16,000 beneficiaries in the inaugural year.

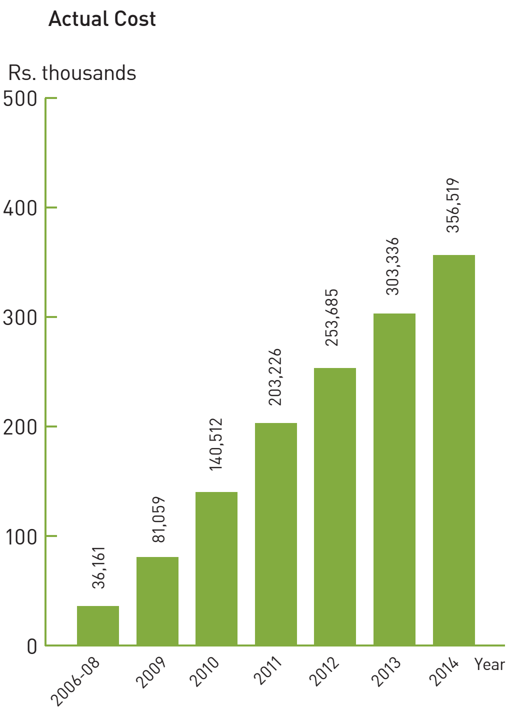
SADP is based on the unique concept "helping those who are willing to help themselves"

An independent study of the programme by Ernst & Young concluded that 88 per cent of SADP and 82 per cent of SADP Plus families were performing at an acceptable level of tolerance – a testament to the success of their pursuit of their own ambitions. The study, undertaken in April 2014, revealed income levels of participants during different time periods of the programme, and indicated that the income of the families as a result of SADP increased by approximately 51.2 per cent. (GRI SO01)

The annual 'SADP Pola' (Fair) was held at the CTC Head Office in August of this financial year. Declared open by CTC Chairman Susantha Ratnayake, the fair showcased the produce of SADP farmers.

Indicators (Farmers)	Base line (Rs.) (0-12 months)	Mid line (Rs.) (13-24 months)		End line (Rs.) (25-30 months)	Graduated (Rs.) (30+ months)
		SADP	SADP Plus		
Average total income from SADP	3,204	13,759	22,243	18,210	13,229
SADP contribution to agriculture and live stock income as a %	62%	71%	79%	72%	64%
SADP contribution to total household income as a % (average)	29%	48%	60%	52%	45%

Cumulative cost chart 2006 - 2014



Our commitment to the SADP initiative is evident by the resources that back it.

Income of families enrolled in SADP have risen by 50 per cent

Empowering Tobacco Farmers

Our relationship with the tobacco farming community and agriculture industry in Sri Lanka is perennial and our involvement in the sector has extended beyond tobacco cultivation. It is a partnership we have valued and nurtured through our core business and sustainability initiatives, enriching the lives of farmers and uplifting the economy.

During the year in review, we offered our farmer communities the assurance of purchase through the forward contract system. This is a procedure through which, at the beginning of the growing season, together with government officials and farmer organisations we agree on a fixed price for the produced tobacco leaf for the entirety of the season. Moreover, we continued to support leaf farmers by providing seeds, sharing knowledge and best practices and aided them in obtaining financial assistance through banks.

In 2014, CTC extended its drought relief activities to assist farmers overcome effects of adverse climatic conditions by arranging mechanisms for farmers to acquire water pumps on credit and supported them in the construction of 250 agro wells.

The Company also introduced a scheme to facilitate bank loans for which 75 per cent of our farmers signed up. To date 99 per cent of the farmers have paid back their loans – an achievement made possible mainly due to the buy-back guarantee by CTC.

CTC continued to extend agricultural and environmental support to communities in areas we operate. During the year we spent over Rs. 500,000 to conduct soil tests, on behalf of farmers, to ensure soil quality and health. Furthermore, we conducted programmes to train farmers on best agriculture practices that would minimise soil degradation due to cultivation of tobacco. Collaborating with Agrarian Services, the Department of Agriculture and farmer associations we helped farmers find sustainable solutions to minimise environmental degradation.

Our partnership with tobacco farmers is one that we value

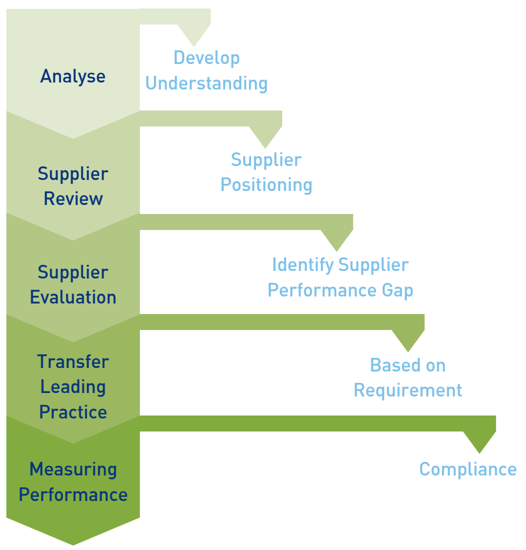
The annual Farmer Appreciation Programme held in September saw over 80 farmers recognised for excellence in tobacco cultivation. As in past years, we offered tobacco farmers who have performed exceptionally during the year an opportunity to experience and share knowledge on sustainable agriculture practices through an educational tour to India.

In the previous financial year, we integrated tobacco farmers to our mainstay sustainability project SADP with the launch of SADP Ultra. In 2014 we continued supporting the 4,100 tobacco farmer enrolled in the programme; totalling 16,000+ beneficiaries.

Empowering Suppliers

Suppliers are a key link in ensuring business success and we believe it is in our best interest to infuse the precepts of sustainability and sustainable business practices in strengthening supplier relations.

As such, CTC employs global BAT best practices and tested mechanisms when enlisting, selecting and evaluating its suppliers. We constantly evaluate the performance and standards of our suppliers to ensure they deliver our requirements when and at the quality needed. Our robust review process allows us to accurately assess delivery quality when selecting suppliers and we monitor their progress and suggest service improvements which add value to their overall businesses.



We constantly evaluate and support our suppliers

Enriching Civic life

Civic involvement remains one of CTC's key focus areas in CSR. Therefore, CTC has had a long standing participation in developing public infrastructure and services for communities across the Nation (GRI EC08).

Agro Wells: To combat the severe drought, which prevailed in the Welioya region, CTC together with the Ministry of Economic Development embarked on a project to construct 100 agro wells. Each well serves 4 families, resulting in over 400 families benefiting from the project.

400 families benefited from our agro wells project

Police Stations: CTC together with the Ministry of Defence embarked on the construction of an A-grade police station in Weeraketiya. The Urban Development Authority, with the support of the Sri Lankan Army, supervised the construction work.

Police station in Weeraketiya

Pilgrims Rest: CTC and John Keells Holdings came together to jointly construct a Pilgrims' Rest at 'Girihandu Seya' – the location of the first pagoda built in memory of Lord Buddha.

Pilgrims rest at 'Girihandu Seya'

Sanitation: The Company launched a project to support the drive to increase quality of sanitation facilities in the Meerigama Divisional Secretariat of the Gampaha District. CTC together with Liya Abhimana embarked on a construction project to develop 325 toilets to improve sanitation in the area.

325 toilets built to improve sanitation

Relocation: As part of the Government's Hambantota Industrial Park project, families living on the designated property had to be relocated to new areas. In support of this, CTC constructed 6 houses for those being relocated.

Prosperity

We believe generating value across the supply chain not only enhances our corporate wealth but also the wealth of our stakeholders from employees, farmers, suppliers and traders to enhance revenue for the Nation.

Total Tax Revenue

CTC contributed Rs. 73.6 billion in excise, taxes and levies, equivalent to approximately 8 per cent of the Government's revenue in 2014.

Shareholders

Despite the challenges in 2014 we remained committed to delivering sustainable returns to our shareholders. Total dividends declared and paid during 2014 increased by 6 per cent to Rs. 9.0 billion.

Value Creation

The Company infused in excess of Rs. 100 billion into the economy through its 'Crop to Consumer' supply chain.

CTC recognises organisational prosperity as key to stakeholder value generation. Organisational prosperity, hinges on how productive we are as an organisation, how well we optimise resources and enhance our productive output through infusion of innovation to the supply chain from 'Crop to Consumer'.

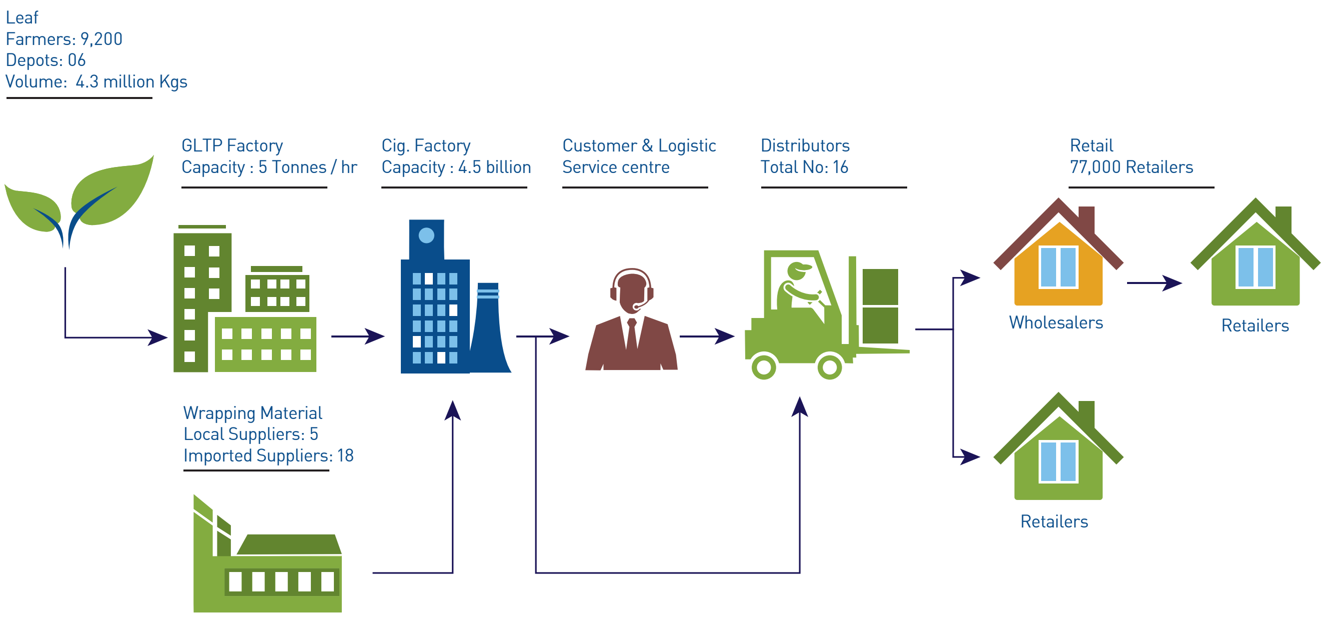
Generating value through innovation not only enhances our corporate wealth but also the wealth of all our stakeholders from employees, farmer communities, suppliers and traders to enhance revenue for the Nation.

'Crop to Consumer' Supply Chain

At the very core of CTC's operations spanning over a hundred years, lies the unique and adept 'Crop to Consumer' supply chain. The term 'Crop to Consumer' in essence refers to a fully-fledged, highly integrated, quality focused value chain which generates multiple facets of growth and value for the Company and its stakeholders. Within the Group, CTC has the distinction of being one of the few markets with a fully integrated operation; from tobacco growing and green leaf threshing to manufacturing operations.

Across our value chain, focus remains on crop quality enhancement, overall sustainability of the operation especially with respect to leaf production and manufacturing - where CTC pro-actively measures the sustainability of the operation through the application of sustainability index criteria, safety and optimisation of capacities and revenues through the exploration of export opportunities. Generations of value have ensued as a result of our presence on the ground, generating prosperity across the business and imparting significant benefits to stakeholders.

Generations of value have ensued as a result of our presence on the ground, generating prosperity across the business and imparting significant benefits to stakeholders.



CTC's fully-fledged, highly integrated 'Crop to Consumer' supply chain

We have infused top global best practices to Sri Lanka's manufacturing industry by way of pioneering operational methodologies, systems and concepts.

Value Creation through the Supply Chain

Generations of Leaf

Within the BAT network, CTC holds a unique position of excellence in leaf sustainability by domestically producing almost 100 per cent of the tobacco requirement annually. Domestic production through tobacco cultivation engages approximately 9,200 farmers in rural Sri Lanka and serves as a catalyst in farmer wealth creation as well as in rural economic stimulation. CTC's agri-extension programme facilitates farmer development further, by inculcating practices to enhance crop yield whilst maintaining and enhancing crop quality. Our model farmers have been instrumental in pioneering knowledge-share amongst the farming communities within their geographic areas, thereby permeating the culture of sustainable agriculture to other farmers. In 2014, CTC infused in excess of Rs. 1.5 billion into the rural economy by way of leaf purchases.

Generations of Manufacturing

Over a century of operations in Sri Lanka has seen CTC create a legacy in manufacturing prowess. Today, CTC maintains one of the most productive manufacturing operations in Sri Lanka, one that utilises best practices and processes to achieve sustainable productivity improvements while delivering high quality products that deliver consumer satisfaction. We have infused top global best practices to Sri Lanka's manufacturing industry by way of pioneering operational methodologies, systems and concepts.

In 2014, CTC's manufacturing operations created 1,500 direct and indirect employment opportunities, whilst additionally enhancing the livelihoods of over 5,000 people. CTC's manufacturing operations contributed towards the generation of an income in excess of Rs. 94 billion.

12,800 +
livelihoods
generated in the farming sector

5,000 +
livelihoods
generated in the manufacturing sector

Rs. 1.0+ billion
Annual income
generated through farming

Rs. 94+ billion
Annual income
generated through manufacturing

3,300+
Full time employment
created in farming

1,500 +
Full time employment
created in manufacturing

Generations of Trade

Adopting a policy of unreserved interaction with our trade partners, we intensified activities in 2014 to give them 360^0 visibility to our priorities and challenges, thereby, creating a sense of involvement in the business and encouraging dialogue, inspiring proactive action and an enhanced working relationship.

Our contribution to trade has extended over many decades and across many generations of entrepreneurs. In 2014, as in the past, CTC infused value to the trade sector, creating employment opportunities for over 33,000 during the year. Our trade network benefited by way of an infusion of over Rs. 4 billion, generated as income, and research indicates we fostered over 129,000 additional livelihoods during the period under review.

In 2014, CTC continued to invest into further strengthening its relationship with the trade through 'Abhisheka' a trade loyalty programme. Pinnacle Awards 2014 was held to recognise the outstanding achievements and to celebrate the winning partnership between CTC's own trade marketing team and the distributor network. Continuing a 25-year tradition, in May 2014, CTC held the Distributor Representative Awards with the participation of over 600 representatives and their families.

129,000+
livelihoods
generated in trade sector

Rs. 4.0+ billion
annual income
generated through trade

33,000 +
Full time employment
created in trade

Forefront of Productivity Innovations

CTC's supply chain function is characterised by innovation, synergy and dedication. Looking beyond the traditional to innovation driven solutions, synchronised operations, multi-tasking capabilities and the strength of a team backed by generations of expertise have all collaborated to deliver value during the financial year. Supply chain was notably a key area in which strategic innovation thrived during the year in review. 2014 saw the introduction of numerous productivity based initiatives that redefined CTC's value chain, further enhancing its character as unique and innovative.

Innovations on the crop front included 100 per cent barn automation in the Polonnaruwa area, achieving completion in 2014 across a crop coverage exceeding 45 per cent. During the period under review, further innovations carried out in leaf included the introduction of nursery sprinkler systems to offset the impact of adverse dry weather conditions. Since Polonnaruwa is an area susceptible to extreme weather patterns and extreme arid conditions these water conservation and management measures are expected to optimise the tobacco output while regularising supply.

The year 2014 was a challenging year for manufacturing on several fronts. Despite contraction in production volume, productivity of the manufacturing process was enhanced as a result of several new initiatives. During the year, four new product and package changes occurred and we continued to deliver the best-quality products that catered to consumer needs, on time and in full. Meanwhile, CTC delivered the highest export volume of 230 million sticks to Maldives and Afghanistan. Product innovations including switch technology and click technology were integrated into the manufacturing process with efficiency. Despite the challenges the factory performance improved and was bench marked with its regional peers. In the context of a challenging operational scenario, CTC nevertheless, claimed the highest Overall Equipment Efficiency (OEE) in the Asia Pacific region and was also recognised as the factory with lowest wrapping material waste.

CTC launched 'Project Windmill' with the primary objective of driving productivity improvements and waste minimisation across the business.

In 2014, 'Project Windmill' delivered
Rs. 31.5 million
in savings through productivity improvements and waste minimisation

We continued to explore opportunities to satisfy the consumer – via consumer-centric quality – starting from determining their needs to delivering the ideal product. CTC has in place a robust quality control and monitoring system, including a consumer hotline, to ensure all products are manufactured as expected. As a result of our continued efforts to understand adult consumer requirements we have reduced complaints once again epitomising that the consumer is indeed at the heart of our business.

The procurement process of CTC, a crucial link in the overall supply chain, experienced a quantum leap in terms of sourcing and procurement technique. In 2014, CTC saw a further evolution of its procurement process through improvements to its direct and indirect goods and services, contracts management as well as import and export functions to provide innovative and value added services to the business.

With the onset of new regulations coming in to effect on 1 January 2015, CTC's manufacturing team braced for the change with the installation of manufacture date printing machines for all the Stock Keeping Units (SKUs). Notably, all manufacturing transitions were achieved on time and in full, with minimum impact to the business.

Stakeholder Value Creation

Financial performance for CTC is inherently critical in shaping stakeholder perceptions along with other indicators such as Corporate Governance, management practices, and having robust processes in place. Strong financial performance is more visible to stakeholders as it means revenue to the Government and shareholders is increased, returns to business partners and employees are maximised and value addition to consumers enhanced.

In 2014, CTC continued to be one of the best corporates in terms of creating value to its stakeholders. The CTC share continued to deliver great value to shareholders while the Company retained its position as the single highest contributor to government revenue in the form of excise, taxes and levies.

Delivering high performance consistently has enabled the Company to establish itself as one of the most valuable entities on the Colombo Stock Exchange (CSE). In fact, over the past decade, CTC has retained a position of leadership at the CSE, earning a reputation for its share value and market capitalisation. As one of the oldest listed entities on the CSE and second largest in terms of market capitalisation, CTC's shares performed commendably in 2014.

The Company's commitment to deliver sustainable value to its stakeholders was acknowledged during the year in review, when CTC was recognised as one of the 'Top 10 Best Corporate Citizens' by the Ceylon Chamber of Commerce at the Best Corporate Citizen Sustainability Awards 2014.

Description	Performance		
	2012	2013	2014
	Rs. million	Rs. million	Rs. million
Value Generated	78,478	84,391	82,125
Gross Revenue	82,770	89,455	87,900
Interest Income	646	735	403
Purchase Cost & Services	(5,033)	(5,849)	(6,194)
Other Operating Income	94	51	16
Distribution	78,478	84,391	82,125
State	69,095	73,940	72,129
Shareholders	6,950	7,530	7,399
Employees	1,016	1,007	1,167
Depreciation	190	304	211
CSR/Donations	8	9	45
Lenders	Not Applicable		
Retained Profits	1,219	1,601	1,174

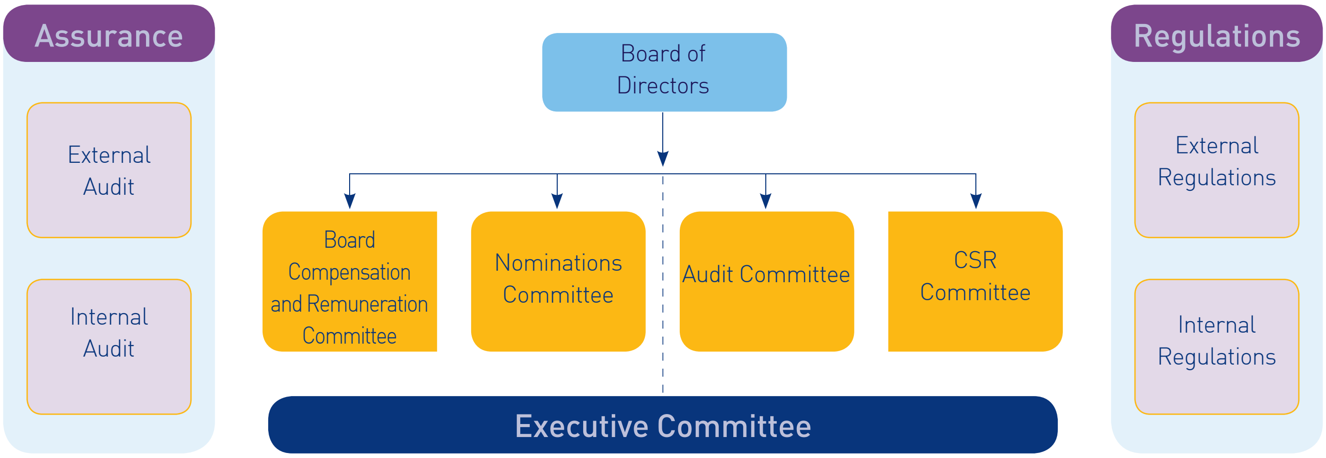
Direct economic value generated and distributed including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and government revenue (GRI EC01)

Driven by our strategies, guided by our principles

Corporate Governance →

Corporate Governance

The Governance Model



Ceylon Tobacco Company PLC considers Corporate Governance as an uncompromising quest to deliver assurance and comfort to both internal and external stakeholders.

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

The Governance Model

Role and Composition of the Board

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

The Company currently has a Board of 7 Directors; the Chairman, 2 Executive Directors – the MD and Chief Executive Officer, the Finance Director and another 4 Non Executive Directors. Their profiles appear on pages 16 - 17.

A balance of Executive and Non-Executive member representation on the Board ensures impartiality. The Nominations Committee selects individuals who are independent with capabilities and their potential to contribute to the Company. Non-Executive Board members perform an important role in providing an external perspective to the business. All Directors make a formal declaration of all their interests on annual basis and 3 Non-Executive Directors have been declared by the Board as Independent Non-Executive Directors as per Corporate Governance best practice rule 7.10.4 of continuing listing requirements of the CSE.

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

Board Committees

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

Nominations Committee

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

Audit Committee

The Audit Committee is chaired by an Independent Non-Executive Director. The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance, integrity of financial statements as well as the conduct of business in accordance with the Standards of Business Conduct of British American Tobacco Plc (BAT). Please refer pages 84 - 85 for the Statement of the Chairperson of the Audit Committee.

Board Compensation and Remuneration Committee

The Board Compensation and Remuneration Committee is chaired by the Chairman of the Company. The Committee determines the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors and the Executive Committee. Please refer page 86 for the Report of the Board Compensation and Remuneration Committee.

CSR Committee

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

Appointments and Re-election to the Board

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

Performance of the Board

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

Standard of Business Conduct

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

Compliance Control

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

Compliance with National Laws and Regulations

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

Risk Review and Management

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

The Company conducts induction, awareness and training programmes for managers and executives to increase the awareness of the key principles of Risk Management, Internal Controls and Corporate Governance.

Attendance at Board and Board Committee Meetings

Name	Board	Audit Committee	Nominations Committee	Board Compensation and Remuneration Committee	CSR Committee
Mr. Susantha Ratnayake **	04/04 +	01/02	01/01 +	02/02 +	01/01 +
Mr. Felicio Ferraz	04/04	02/02 ^	01/01		01/01
Mr. Ariful Islam (Retired w.e.f. 10 July 2014)	01/04				
Mr. Stephan Matthiesen (Appointed w.e.f. 10 July 2014)	03/04	02/02 ^			01/01
Mr. Mobasher Raza* (Retired w.e.f. 9 May 2014)	01/04				
Mr. Javed Iqbal * (Appointed w.e.f. 9 May 2014)	02/04				
Mr. Henry Koo* (Retired w.e.f 9 May 2014)	01/04				
Mr. Kenneth Allen* (Appointed w.e.f. 7 October 2014)	02/04	01/02			
Ms. Premila Perera**	04/04	02/02 +	01/01	02/02	
Mr. Dinesh Weerakkody** (Appointed w.e.f. 1 July 2014)	03/04	02/02			01/01
Mr. Ariyaratne Hewage** (Retired w.e.f. 1 August 2014)	01/04				
Mr. Asim Imdad Ali ***					01/01

* Non-Executive Director
** Independent Non-Executive Director
*** Non-Executive Member
\+ Chairman of the Committee
^ Invitee to the Committee

Corporate Governance Compliance Table

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Report on Corporate Governance on pages 64 - 70
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Report on Corporate Governance on pages 64 - 70
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Report on Corporate Governance on pages 64 - 70
7.10.3(a)	Disclosure relating to Directors	The Board shall make a determination annually as to the independence or non independence of each Non-Executive Director	Compliant	Report on Corporate Governance on pages 64 - 70
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Section of Board of Directors on pages 16 - 17
7.10.3(d)	Disclosure relating to Directors	Upon appointment of a new Director to the Board, a brief resume of each Director should be provided to the CSE	Compliant	Section of Board of Directors on pages 16 - 17
7.10.4	Criteria for defining independence	As per defined criteria of the CSE listing rules	Compliant	All three Independent Directors meet the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Report of Board Compensation and Remuneration Committee page 86
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Report of Board Compensation and Remuneration Committee page 86
7.10.5(b)	Report of Remuneration Committee on page 86	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Report of Board Compensation and Remuneration Committee page 86
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out:		Report of Board Compensation and Remuneration Committee on page 86
		a. Names of Directors comprising the Remuneration Committee;	Compliant	
		b. Statement of Remuneration Policy;	Compliant	
		c. Aggregate Remuneration paid to Executive and Non-Executive Directors	Compliant	Note 29 of Financial Statements on pages 117 - 119

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 84 - 85
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 84 - 85
		b. The Chief Executive Officer and the Chief Financial Officer should attend Audit Committee meetings	Compliant	
		c. Chairperson of the Audit Committee or one member should be a member of a professional accounting body.	Compliant	
7.10.6(b)	Audit Committee Functions	Overseeing of the: (i) preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards;	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 84 - 85
		(ii) compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements;	Compliant	
		(iii) processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards;	Compliant	
		(iv) assessment of the independence and performance of the external auditors;	Compliant	
		(v) make recommendations to the Board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors;	Compliant	

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of the Directors comprising the Audit Committee	Compliant	Refer the Statement of the Chairperson of the Audit Committee on pages 84 - 85
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions	Compliant	

Other Directorships of Directors

Name of the Director	Name of the Company	Position held
Mr. Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mr. Felicio Ferraz	-	-
Mr. Stephan Matthiesen	-	-
Mr. Javed Iqbal	Pakistan Tobacco Company Limited	Director
Ms. Premila Perera	Holcim (Lanka) Limited	Director
	John Keells Holdings PLC	Director
Mr. Kenneth Allen	British American Tobacco (Singapore) Pte Limited	Director
	British American Tobacco Marketing (Singapore) Pte Limited	Director
	British American Tobacco Asia Pacific Treasury Pte Limited	Director
	Rothmans Industries Private Limited	Director
	Agrega Asia Pacific Pte Limited	Director
Mr. Dinesh Weerakkody	GlaxoSmithKline Beecham Ltd	Director
	Cornucopia Sri Lanka Limited	Chairman
	HR Cornucopia India	Director
	Emsolve Consultants	Director
	Lanka Aluminum Industries PLC	Director
	ACME Packaging PLC	Director
	GFH Management Company	Director
	Hemas Holdings PLC	Director
	Lanka Rating Agency	Director
	CIC Holdings PLC	Director
	Access Engineering PLC	Director
	Sri Lanka Tennis Association	Vice President
	International Chamber of Commerce Sri Lanka Chapter	Vice President
	Sri Lanka Institute of Directors	Council Member
	Employers Federation of Ceylon (EFC)	Council Member

Finance Director's Review

The Company's sustainable performance was recognised by the Ceylon Chamber of Commerce which awarded CTC with the Best Corporate Citizen Sustainability Award as one of the, 'Top 10 Companies' in the country.

Long-term sustainable shareholder value generation

Comprehensive Income

CTC remains committed to delivering long term sustainable shareholder value, despite short term challenges to the business. In 2014, CTC once more, delivered strong financial results despite an extremely challenging market environment. The Company's sustainable performance was recognised by the Ceylon Chamber of Commerce which awarded CTC with the Best Corporate Citizen Sustainability Award as one of the, 'Top 10 Companies' in the country.

CTC continued to remain one of the most valued companies listed on the Colombo Stock Exchange with a market capitalisation of Rs. 199 billion on 31 December 2014.

Financial results for 2014 were heavily impacted by a significant decline in domestic volumes as a result of a widened price gap between legitimate cigarettes and non-regulated tobacco products, such as beedi, which continued growing volume during the year. This trend impacted not only CTC's bottom line but also constricted government revenues. Agricultural crop failure caused by severe droughts in some areas of the country resulted in lower disposable income among consumers which further amplified the volume decline experienced during the year in review. This steep domestic volume decline was partially offset by strong growth in export sales.

CTC recorded a gross revenue of Rs. 87.9 billion, during 2014, a decline of 2 per cent compared to the previous year, while net revenue grew by 1 per cent to Rs. 21.7 billion. This is a remarkable achievement considering the external environmental pressures faced by the Company. During the year under review we contributed Rs. 73.6 billion to government revenue through direct and indirect taxes, a reduction of 4 per cent against the previous financial year.

Earnings from exports increased to Rs. 369 million from Rs. 156 million in 2013. The Company will continue to explore export opportunities to strengthen its overall financial performance as well as to increase the inflow of foreign currency to the country.

Aggressive productivity initiatives undertaken in 2014, together with lower volumes lead to a 3 per cent reduction in raw material cost, which was partially offset by higher prices paid to tobacco farmers, a better product mix, increases in wrapping material prices and higher quality packaging introduced following the John Player Gold Leaf (JPGL) pack upgrade.

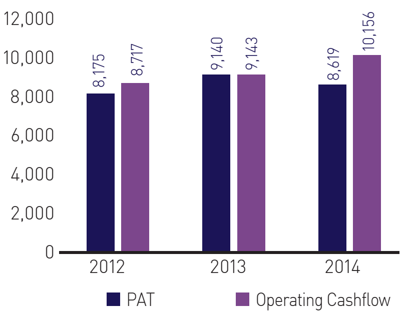
A 14 per cent increase in other operating expenses vs. the previous financial year can be attributed to the migration of financial shared services to the BAT Shared Service Centre in Malaysia. Other drivers included an increase in marketing investment to strengthen the value of our flagship brand, JPGL, as well as increased legal expenses during the financial year in review. Furthermore, compliance to the newly introduced regulation on Pictorial Health Warnings affected our profitability by Rs. 60 million and we expect this cost to continue affecting our profits, as the regulations prescribe the image used in the health warning to be replaced every six months.

One-off expenses related to the implementation of a new global Enterprise Resource Planning System (SAP) also affected the Statement of Comprehensive Income. The implementation of one global SAP system and the improvement and harmonisation of global processes ('Project TaO') is expected to deliver tangible and intangible benefits, both for the global business and its individual entities in the upcoming years. The investment is a stepping stone in enabling leaner and more automated planning and reporting as well as faster and more efficient decision making. CTC has been recognised by the BAT group as one of the most successful Companies in delivering 'Project TaO'.

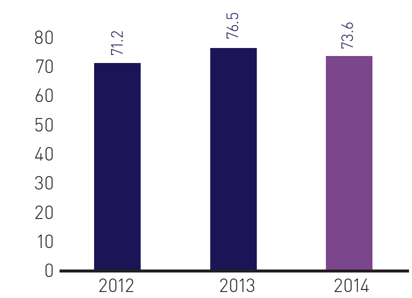
Net interest income in 2014 declined by 45 per cent vs. 2013, caused by sharp reduction in interest rates.

Profit before tax was recorded at Rs. 14.6 billion, a decline of 4 per cent against 2013. Excluding the one-off impact related to 'Project TaO' as well as the effect of reduced interest rates, the profit before tax in 2014 would have declined by 2 per cent, in line with the gross turnover.

Financial Performance
(Rs. Mn.)



Government Revenue
(Rs. Bn.)



While the nominal income tax rate remained at 40 per cent during the year in review, the effective tax rate increased marginally due to lower net interest income, which is taxed at a lower rate. This impact was somewhat offset by an increase in exports, which are also taxed at a lower rate.

Investment

Despite the decline in domestic volumes, the company remained committed to investing in our brands to ensure sustainable long-term returns. We are pleased with the strong performance of innovations such as filter capsules, the share of which grew further in 2014, with Dunhill SWITCH now making up more than 65 per cent of the total Dunhill volume. The launch of JPGL Click, an innovative variant for the brand, facilitated the trend of up-trading to capsule products.

JPGL retained its position as the market leader and the most valuable brand in our portfolio. During 2014 we further strengthened the brand image of JPGL by the launch of its improved pack design. The new design is a key milestone in the long history of JPGL in Sri Lanka and is in full alignment of our value infusion strategy aimed at creating excitement around the brand in an increasingly price sensitive market environment.

In 2013, we re-launched Bristol, our offer in the 72mm segment, to cater to an increased need for a strong Value for money brand. Bristol volumes in 2014 grew by 83 per cent vs. 2013.

During 2014 we reviewed and improved our distribution model with the introduction of the "Route to Market Excellence" programme, which will be fully implemented in 2015. We also prepared and educated the distributor and retail universe ahead of the introduction of Pictorial Health Warnings which came into effect from 1 January 2015, in order to ensure a smooth transition while minimising negative impacts on sales volumes. The 'Abhisheka' trade loyalty programme, launched in 2013 for our valued trade partners, was further improved in 2014.

Capital investments in property, plant and equipment amounted to Rs. 311 million, 8 per cent higher than the previous year. Capital investments are mainly related to the replacement of old and the upgrading of existing machinery to enhance productivity and to improve product quality. Furthermore, the year in review saw investments made to guarantee and improve the Company's Environmental, Health and Safety standards and enhance employee safety at the workplace.

Cash flow and Liquidity

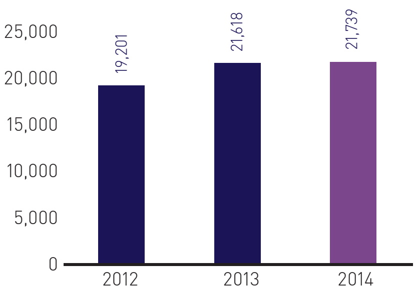
The Company had yet another strong year and delivered improved cash flow results and had no debt funding at the end of the year.

Working capital movement and lower corporate tax payments resulted in an 11 per cent growth in net cash generated from operating activities despite a reduced profit before tax of Rs. 657 million vs. 2013.

Distributor credit exposure remained fully covered through bank guarantees. During 2014 a total of 9 distributors entered the distributor collection scheme. By the end of 2014, 6 distributors were on a distributor financing scheme and funds from 15 out of 16 CTC distributors were collected by one of our international core banks.

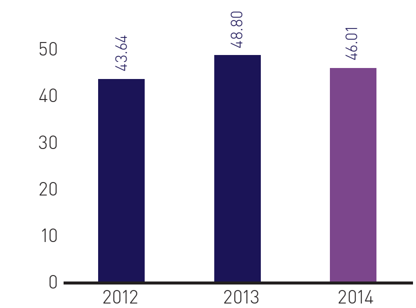
Net Turnover

(Rs. Mn.)



Earnings per Share

(Rs.)



Return to Shareholder

Despite the challenges in 2014 and the difficult market environment, we remained committed to delivering sustainable returns to our shareholders. Total dividends declared and paid during 2014 increased by 6 per cent to Rs. 9 billion. This includes the final dividend for 2013, paid in April 2014. Earnings per share (EPS) was recorded at Rs. 46.01, Rs. 2.79 lower than in 2013. Dividends per share amounted to Rs. 39.50 (excluding a final dividend for 2014).

On 31 December 2014, the share price of the Company closed at Rs. 1,060 (vs. Rs. 1,184 at the end of 2013).

The Company successfully defended its position as the second most valuable entity listed on the Colombo Stock Exchange as at 31 December 2014.

Stephan Matthiesen
Finance Director

11 February 2015

Risk Management

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

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

The key benefits from managing risks are:

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

The key principles of the Risk Management Framework aim to:

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

Risk Management Process

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

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

Risk Identification

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

Assessment and Evaluation

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

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

Risk Response and Managing of Individual Risks

Identified and assessed risks are managed by the risk owner. Mitigation action plans are developed by the risk owner and reviewed by the RMC. This includes the time-lines for implementation of the mitigation plans for successful mitigation of the risk.

Monitoring

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

Key foreseeable risks faced by the Company are;

Illicit Trade

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

Excise and Taxes

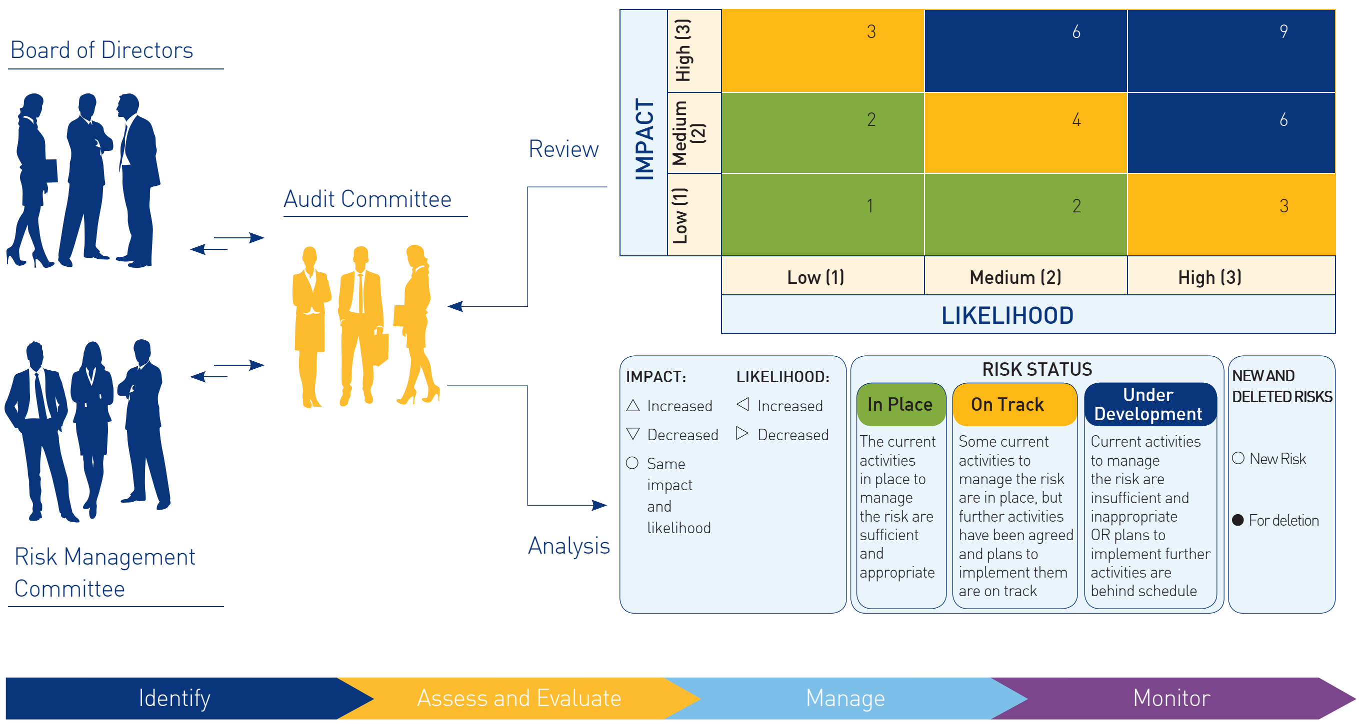
CTC continuously reviews its brand portfolio and brand equity to ensure its brands remain relevant to consumers given the high price of legal cigarettes due to high excise and taxes.

Regulations

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

Changes in the fiscal environment

On policy considerations the Government may consider imposing one-off taxes on profits from large corporates. This would significantly impact CTC's financial planning processes and business performance.



Crisis Management and Business Continuity Plans (BCPs)

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

Testing of Business Continuity Plans (BCPs)

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

Risk Management and Internal Audit

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

Assessment of Going Concern

The financial statements of CTC for the year ended 31 December 2014 have been prepared on the basis that the Company is a going concern.

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

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

Financial Indicators

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

Operating Indicators

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

Other Indicators

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

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

Statement of Internal Controls

The Board of Directors has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. The Board has established that achieving a sound internal control environment is a key priority, with understanding at all levels and an appropriate allocation of resources is made to maintain the right standard.

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

To be effective, internal control must:

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

Control activities include a comprehensive list of policies and procedures which ensures that the management directives are carried out and the necessary controls are in place to minimise the risk of not meeting the objectives. The policies and procedures are established throughout the organisation and periodically reviewed for adequacy and improvement. The policies and procedures are designed to provide reasonable assurance of:

- effectiveness and efficiency of operations;
- protection of Company assets against unauthorised use or disposition;
- reliability of financial and other management information;
- prevention of fraud;
- compliance with relevant National laws and other applicable regulations.

Within this framework, each Head of Function has the responsibility for establishing and operating detailed control procedures within their functions. A detailed checklist of controls, called the 'Control Navigator' is available for each function. Management does a thorough self-assessment against the standard controls set out in the Control Navigator and prepares action plans to bridge the gaps if any, which is presented to the Audit Committee and followed up by the Executive Committee.

The internal control system is monitored by the Executive Committee and Compliance and Internal Audit. The Internal Control Committee (ICC) was established in 2013 with the objective of supporting the Executive Committee in maintaining a sound control environment. Each function is represented in the ICC by a senior manager from the function and the Committee is chaired by an Executive Committee member on rotation. Scope of the ICC encompasses:

- review and validation of the Control Navigator self-assessment by functions;
- review of functional controls to identify any issues or weaknesses;
- review and recommend required changes to policies and procedures;
- enhance organisation wide control awareness and education;
- follow up on Audit and Control Navigator action points.

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

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

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The scope of the Audit Committee is described in the Corporate Governance Statement and in the Statement of the Chairperson of the Audit Committee. To ensure complete independence, both external and internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attend the Audit Committee meetings.

Audit reports and findings are presented at the Audit Committee meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they have complied with the policy statement on internal control. These best practices were complied with during the year 2014.

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

Felicio Ferraz
MD and Chief Executive Officer

Stephan Matthiesen
Finance Director

11 February 2015

Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31 December 2014, together with the audited financial statements of the Company.

Structure and Key Activities

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

84.13%

↓

Ceylon Tobacco Company PLC

PRINCIPAL ACTIVITY

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

Review of the year

The Chairman's Statement, MD and Chief Executive Officer's Statment and Financial Review together with the Financial Statements highlight the Company's performance for the year under review and state of affairs as at 31 December 2014.

Results for the year 2014 and appropriations

	Rs.000's	Rs.000's	Rs.000's
Retained profit as at 1 January 2014			2,442,255
Current year's profit after charging all expenses and providing for all known liabilities		8,618,715	
Dividends			
Dividends of Rs.48.05 per share on the Issued Share Capital of 187,323,751 shares			
Final Dividend - 2013 - Rs. 8.55 per share paid on 11/04/2013			
First Interim dividend - 2014 - Rs. 10.80 per share paid on 28/05/2014			
Second Interim dividend - 2014 - Rs. 13.20 per share paid on 21/08/2014			
Third Interim dividend - 2014 - Rs. 11.10 per share paid on 26/11/2014			
Fourth Interim dividend - 2014 - Rs. 4.40 per share paid on 23/01/2015			
• Net dividend	8,100,815		
• Dividend Tax	900,091		
		(9,000,906)	
Write back of unclaimed dividends			5,475
Remeasurement of Plan Asset			(40,332)
Balance carried forward to 2015			2,025,207

Interim dividends of Rs. 7,399 million have been paid from current year profits after tax of Rs. 8,619 million.

Capital Expenditure

The Company capitalised a sum of Rs. 311 million in property plant and equipment in its modernisation programme. The movements in property, plant and equipment for the year are shown in Note 14 to the financial statements.

Donations

Included in the current years result is a sum of Rs. 45 million on Corporate Social Responsibility activities shown in Note 10 to the financial statements.

Contingent Liabilities and Capital Commitments

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

Directorate

The names of the Directors are disclosed in pages 14 - 15 of the Annual Report.

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

Directors proposed for Re-election

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

Stephan Matthiesen, Kenneth Allen , Dinesh Weerakkody and Javed Iqbal who were appointed to the Board of Directors since last Annual General Meeting also retire and being eligible , be proposed for re-election in terms of Articles of Association of the Company.

Directors' Interest in Contracts and Related Party Transactions

Directors' interest in contracts and related party transactions are disclosed in Note 29 to the financial statements and have been declared at the meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

Market Statistics - (At 31 December)

		2014	2013	Growth %
• No of Shares		187,323,751	187,323,751	-
• Earnings per share	– Rs.	46.01	48.80	(6)
• Net assets per share	– Rs.	20.81	23.04	(10)
• Market price per share	– Rs.	1,060.10	1,184.40	(10)
• Price earnings ratio		23.04	24.26	(5)
• Dividends per share	– Rs.	39.50	40.20	(2)

Directors' Shareholding

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

31st December	2014	2013
Susantha Ratnayake	644	644
Total	644	644

No Director other than those disclosed above have any shareholding.

Future Developments

Future Company developments are covered in the Chairman's Statement, MD and Chief Executive Officer's Statment and Financial Review.

Reserves

Total reserves as at 31st December 2014 comprise of revenue reserves amounting to Rs. 2,025 million. Movements are shown in the Statement of Changes in Equity in the Financial Statements.

Major Shareholdings

The 20 major shareholders and percentages are disclosed on page 123.

Employee Share Ownership Plans

The Company has no share ownership plans as at 31 December 2014. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers value of phantom shares in BAT Plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is split into two components. Half the award is paid at the date of grant based on the share price of the BAT Plc share at the preceding date multiplied by half the number of shares awarded and the rest is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

Statutory Payments

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

Going Concern

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

Compliance With Regulations

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

Auditors

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

Felicio Ferraz
MD and Chief Executive Officer

Stephan Matthiesen
Finance Director

11 February 2015

Statement of Directors' Responsibilities

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

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

i. Statement of Financial Position, which presents a true and fair view of the financial position of the Company as at the end of the financial year, and which complies with the requirements of the Act; and

ii. A Comprehensive Statement of Income, Statement of Cash Flows and Statement of Changes in Equity which provide the true and fair view of the Company for the financial year.

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

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

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

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

iv. required information has been provided in full and otherwise complied with the Companies Act and the Listing Rules of the Colombo Stock Exchange.

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

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

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

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

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

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

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

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting date have been paid or, where relevant being provided for, except as specified in Note 26 to the financial statements covering contingent liabilities.

Susantha Ratnayake
Chairman

Felicio Ferraz
MD and Chief Executive Officer

11 February 2015

Statement of the Chairperson of the Audit Committee

The Role of the Audit Committee

The role of the Audit Committee, which has specific terms of reference, is described in the CTC's Corporate Governance report on pages from 64 to 70.

Composition of the Audit Committee

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

The members of the Audit Committee:

Ms. Premila Perera (Chair),

Mr. Dinesh Weerakkody (Appointed on 1 Aug 2014)

Mr. Kenneth Allen (Appointed on 15 January 2015)

Mr. Susantha Ratnayake (Resigned on 1 Aug 2014)

Mr. Henry Koo (Resigned on 9 May 2014)

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

Terms of Reference

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

1. Financial Statements

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

2. Internal Control and Business Risks

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

3. Internal Audit

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

4. External Audit

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

Meetings

The Committee met twice during the year. Attendance by the committee members at each of these meetings is given in the table on page 66 of the annual report. All invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

Activities

The Committee carried out the following activities:

Managing Risks

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

Internal Audit

The Committee approved the internal audit plan for 2014 at the beginning of the year and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored. The Committee also approved the 2015 review plan and focused on the resource requirements and future plans pertaining to internal audit.

Internal Controls

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

External Audit

The Committee reviewed the independence of the external auditor (PwC), The scope of audit for 2014 and fees payable.

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

The Committee also reviewed the performance of the external Auditor (PwC) and recommended to the Board of Directors that they be re-appointed for the financial year ending 31 December 2015.

Financial Reporting

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

Good Governance

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

Audit Committee Effectiveness

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

Appreciation

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

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

Premila Perera
Chairperson
Audit Committee.

10 February 2015

Members
Dinesh Weerakkody, Kenneth Allen

Board Compensation and Remuneration Committee Report

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

The scope of the Committee includes the following to;

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

The Committee met on two occasions during the year 2014. During the above meeting the focus was on the review of the salary survey results, market positioning, market anchor movements and the salary increments to be awarded during the year.

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

Committee also approved a set of proposals on revisions of selected benefits with a focus on building more value for the employees based on employee feedback and also, enhancing maternity benefits to create a female-friendly workplace.

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

11 February 2015

Members
Premila Perera

Independent Auditor’s Report

Independent Auditor’s Report To the shareholders of Ceylon Tobacco Company PLC.

Report on the Financial Statements

1 We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, which comprise the Statement of Financial Position as at 31 December 2014, and the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information as set out in pages 94 - 119

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

6 In our opinion the financial statements give a true and fair view of the financial position of Ceylon Tobacco Company PLC as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on other Legal and Regulatory requirements

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

PricewaterhouseCoopers

CHARTERED ACCOUNTANTS
COLOMBO

11 February 2015

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Creating value for every stakeholder

Financial Performance →

Financial Reports

Statement of Comprehensive Income

(all amounts in Sri Lanka Rupees thousands) Year ended 31 December

	Note	2014	2013
Gross revenue	7	87,900,479	89,454,665
Government levies	7	(66,161,319)	(67,837,049)
Net revenue		21,739,160	21,617,616
Raw materials used		(2,609,831)	(2,701,389)
Employee benefit expenses	8	(1,166,845)	(1,006,792)
Depreciation and amortisation expenses		(210,657)	(303,935)
Other operating expenses		(3,584,191)	(3,147,659)
Other operating income	9	15,990	50,865
Operating profit		14,183,626	14,508,706
Net finance income	11	402,964	734,736
Profit before income tax		14,586,590	15,243,442
Income tax expenses	12	(5,967,875)	(6,102,952)
Profit for the year		8,618,715	9,140,490
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	16	(40,332)	122,730
Total other comprehensive income for the year		(40,332)	122,730
Total comprehensive income		8,578,383	9,263,220
Earnings per share			
- Basic (Rs.)	13	46.01	48.80
- Diluted (Rs.)		46.01	48.80

The Notes on pages 94 - 119 form an integral part of these financial statements.
Independent auditor's report - page 87

Statement of Financial Position

(all amounts in Sri Lanka Rupees thousands) At 31 December

	Note	2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,708,437	1,599,295
Intangible assets	15	17,744	27,643
Net surplus assets on retirement benefit plans	16	587,535	594,350
Receivables (staff loans)	19	133,734	97,539
		2,447,450	2,318,827
Current assets			
Inventories	18	3,064,855	2,962,377
Trade and other receivables	19	955,712	1,635,606
Cash and cash equivalents	20	9,009,756	8,250,597
		13,030,323	12,848,580
Total assets		15,477,773	15,167,407
EQUITY AND LIABILITIES			
Capital and reserves			
Stated capital	21	1,873,238	1,873,238
Retained earnings		2,025,207	2,442,255
		3,898,445	4,315,493
Non-current liabilities			
Deferred income tax liabilities	22	348,184	295,218
		348,184	295,218
Current liabilities			
Trade and other payables	23	7,123,784	6,224,411
Income tax liabilities		3,125,871	3,254,201
Dividend payables	24 (a)	824,224	955,351
Unclaimed dividends	24 (b)	157,265	122,733
		11,231,144	10,556,696
Total liabilities		11,579,328	10,851,914
Total equity and liabilities		15,477,773	15,167,407
Net assets per share (Rs.)	25	20.81	23.04

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

S. Matt

Stephan Matthiesen
Finance Director

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue by the Board of Directors on 11 February 2015.

Felicio Ferraz
MD and Chief Executive Officer

S. Matt

Stephan Matthiesen
Finance Director

11 February 2015.

The Notes on pages 94 - 119 form an integral part of these financial statements.
Independent auditor's report - page 87

Statement of Changes in Equity

(all amounts in Sri Lanka Rupees thousands)

	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2013 (as previously reported)		1,873,238	1,542,145	3,415,383
- Effect of adopting amendments to LKAS 19		-	379,908	379,908
Balance at 1 January 2013 (restated)		1,873,238	1,922,053	3,795,291
Profit for the year		-	9,140,490	9,140,490
Other comprehensive income		-	122,730	122,730
Total comprehensive income for the year		-	9,263,220	9,263,220
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	24 (b)	-	5,001	5,001
Dividends	24 (c)	-	(8,748,019)	(8,748,019)
Total transactions with shareholders		-	(8,743,018)	(8,743,018)
Balance at 31 December 2013		1,873,238	2,442,255	4,315,493
Balance at 1 January 2014		1,873,238	2,442,255	4,315,493
Profit for the year		-	8,618,715	8,618,715
Other comprehensive income		-	(40,332)	(40,332)
Total comprehensive income for the year		-	8,578,383	8,578,383
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	24 (b)	-	5,475	5,475
Dividends	24 (c)	-	(9,000,906)	(9,000,906)
Total transactions with shareholders		-	(8,995,431)	(8,995,431)
Balance at 31 December 2014		1,873,238	2,025,207	3,898,445

The Notes on pages 94 - 119 form an integral part of these financial statements.
Independent auditor's report - page 87

Statement of Cash Flows

(all amounts in Sri Lanka Rupees thousands) Year ended 31 December

	Note	2014	2013
Cash flows from operating activities			
Cash generated from operations	28	15,796,027	14,748,847
Interest paid		(161)	(2,481)
Interest received		403,125	661,936
Taxes paid		(6,042,545)	(6,264,805)
Net cash generated from operating activities		10,156,446	9,143,497
Cash flows from investing activities			
Acquisition of property, plant and equipment		(311,195)	(288,318)
Proceeds from disposal of property, plant and equipment		5,934	23,788
Return of investment in subsidiary		-	500
Net cash used in investing activities		(305,261)	(264,030)
Cash flows from financing activities			
Dividends paid	24 (a)	(9,088,038)	(8,565,022)
Unclaimed dividends paid	24 (b)	(3,988)	(2,371)
Net cash used in financing activities		(9,092,026)	(8,567,393)
Increase in cash and cash equivalents		759,159	312,074
Movement in cash and cash equivalents			
At beginning of year		8,250,597	7,938,523
Increase		759,159	312,074
At end of year	20	9,009,756	8,250,597

The Notes on pages 94 - 119 form an integral part of these financial statements.
Independent auditor's report - page 87

Notes to the Financial Statements

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

1 General information

Company

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

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

1.1 Other interests

Outreach Projects (Guarantee) Limited

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

A separate entity was formed to ensure good governance and accountability. The activities of Outreach Projects (Guarantee) Limited are wholly funded by Ceylon Tobacco Company PLC. These activities comprise of development of rural agricultural practices to sustain farmer livelihoods. These programs are of significant magnitude and encompass over 67,000 beneficiaries.

The assets and liabilities of Outreach Projects (Guarantee) Limited is not included in the financial statements of Ceylon Tobacco Company PLC .The Company has contributed Rs. 45 million (2013 - Nil) to Outreach Projects (Guarantee) Limited in 2014. Ceylon Tobacco Company PLC will not be held liable for any loss from its interests in Outreach Projects (Guarantee) Limited.

Ceylon Tobacco Company PLC will continue to support Outreach Projects (Guarantee) Limited in all its future endeavours and have a planned contribution of Rs. 101 million for the next three years. (2015 - 2017).

2 Basis of preparation

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

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

2.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Company

Amendment to LKAS 1, 'Presentation of financial statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments).

SLFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. Please refer note 1.1 for additional disclosures.

SLFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRS/LKASs.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not early adopted.

SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of LKAS 39 that relate to the classification and measurement of financial instruments. SLFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess SLFRS 9's full impact and intends to adopt SLFRS 9 no later than the accounting period beginning on or after 1 January 2018.

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

3 Summary of significant accounting policies

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

3.1 Basis of measurement

The financial statements are prepared under historical cost convention (except for financial assets and liabilities at fair value) and applied consistently with no adjustments being made for inflationary factors affecting the financial statements.

3.2 Segmental reporting

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

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

3.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

3.4 Property, plant and equipment

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

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

3 Summary of significant accounting policies (contd)

3.4 Property, plant and equipment (contd)

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The residual value of certain asset categories were written off to align residual value of all assets under each asset category.

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

3.5 Intangible assets

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

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

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

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

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

3.6 Impairment of non-financial assets

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

3.7 Financial assets

3.7.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the Statement of Financial Position (Notes 3.12 and 3.13).

(c) Available-for-sale financial assets

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

(d) Held to maturity

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

3.7.2 Recognition of financial assets

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and assets held to maturity are subsequently carried at amortised cost using the effective interest method.

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

3.8 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

3.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

3 Summary of significant accounting policies (contd)

3.9 Impairment of financial assets (contd)

(a) Assets carried at amortised cost (contd)

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

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

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

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

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

(b) Assets classified as available for sale

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

3.10 Financial liabilities

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

3.11 Inventories

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

3.12 Trade receivables

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

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

Impairment testing of trade receivables is described in Note 3.9.

3.13 Cash and cash equivalents

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

3.14 Stated capital

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

3.15 Trade payables

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

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

3.16 Current taxes and deferred income taxes

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

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

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.17 Employee benefits

(a) Defined benefit plan

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

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

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

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

3 Summary of significant accounting policies (contd)

3.17 Employee benefits (contd)

(b) Defined contribution plan

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

(c) Short term employee benefits

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

(d) Share based payments

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

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

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

This benefit is included under the employee benefit expense.

3.18 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

3.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3.20 Revenue recognition

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

(a) Sale of goods

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

(b) Interest income

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

3.21 Leases

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

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

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

4 Financial risk management

4.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

The following significant exchange rates are applied during the year:

	At 31 December	
	2014	2013
US Dollar (USD)	132.16	128.73
Great Britain Pound (GBP)	207.32	202.66
Euro (EUR)	165.07	173.31

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would not result in significant changes in the Company's pre-tax profit.

(ii) Price risk

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

Equity price risk

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

4 Financial risk management (contd)

4.1 Financial risk factors (contd)

Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

(b) Credit risk

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

	At 31 December	
	2014	2013
Trade receivables [Note 19]	763,566	1,083,789
Staff loans [Note 19]	211,249	174,417
Other receivables [Note 19]	43,928	389,703
Advances to farmers [Note 19]	-	24,308
	1,018,743	1,672,217
Cash and cash equivalents [Note 20]	9,009,756	8,250,597
	10,028,499	9,922,814

(c) Liquidity risk

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

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

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

	Less than 3 months	Between 3 months and 1 year	More than 1 year
At 31 December 2014 Trade and other payables (excl. statutory liabilities)	(280,622)	(32,844)	-
At 31 December 2013 Trade and other payables (excl. statutory liabilities)	(171,009)	(4,377)	(5,253)

4.2 Capital management

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

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

During 2014, the Company's strategy, which was unchanged from 2013, was to be fully equity funded and have no external borrowings.

4.3 Fair value estimation

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

The below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The Company's assets, measured at fair value at 31 December 2014 are currently at Level 2.

5 Critical accounting estimates and assumptions

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

5.1 Critical accounting estimates and assumptions

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

(a) Defined benefit plan

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

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

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

(b) Income taxes

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

6 Segment information

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

	Year ended 31 December	
	2014	2013
Geographical analysis of gross turnover		
Domestic	87,531,494	89,298,364
Export	368,985	156,301
	87,900,479	89,454,665
Geographical analysis of net results (profit for the year)		
Domestic	8,544,326	9,124,860
Export	74,389	15,630
	8,618,715	9,140,490

Assets

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

Entity-wide information

Gross revenues of approximately Rs. 33,321 million (2013 - Rs. 30,215 million) are derived from three (2013 - three) external customers, who individually contribute to more than 10% of domestic sales.

7 Gross revenue

	Year ended 31 December	
	2014	2013
Local revenue	87,531,494	89,298,364
Export revenue	368,985	156,301
Gross revenue	87,900,479	89,454,665
Government levies		
Excise special provision tax	(58,136,140)	(57,548,300)
Tobacco tax	(27,767)	(31,404)
Value added tax	(7,618,924)	(9,774,932)
Nation building tax	(378,488)	(482,413)
Total government levies	(66,161,319)	(67,837,049)
Net revenue	21,739,160	21,617,616

Chargeability to Value added tax and Nation building tax on the sale of cigarettes was removed effective from 25 October 2014 and consolidated into Excise (Special Provision) Duty from the same date. These amendments were introduced through the National Budget presented by the Government of Sri Lanka and was notified by the Department of Inland Revenue.

8 Employee benefit expense

	Year ended 31 December	
	2014	2013
Executive Directors' emoluments	111,074	97,746
Salaries and wages	979,110	829,665
Defined contribution plans	80,034	64,123
Provision for Voluntary Separation Scheme [(a) below]	30,144	39,377
Defined benefit obligations [Note 16]	(33,517)	(24,119)
	1,166,845	1,006,792

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

9 Other operating income

	Year ended 31 December	
	2014	2013
Profit on disposal of property, plant and equipment (Note 28)	5,080	9,303
Sundry sales / gains	10,910	41,562
	15,990	50,865

10 Expenses by nature

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

	Year ended 31 December	
	2014	2013
Auditor's remuneration		
- Audit fees	3,664	2,619
- Audit related services fees and expenses	250	250
-Non-audit fees	-	-
Legal fees	64,381	56,925
Administrative expenses	756,931	629,044
Donation and CSR expenses	44,521	8,925
Technical and advisory fees	548,486	408,589
Write-off on property, plant and equipment	440	9,086
Depreciation on property, plant and equipment [Note 14]	200,758	298,438
Provision for obsolete inventories	7,994	68,072
Provision for doubtful debts	1,944	13,012
Amortisation expenses [Note 15]	9,899	5,498
Repairs and maintenance	45,836	32,245
Non-executive directors' fees	8,631	8,832
Employee benefit expense [Note 8]	1,166,845	1,006,792

11 Net finance income

	Year ended 31 December 2014	2013
Interest income		
-Interest income from bank deposits	403,125	737,217
Finance income	403,125	737,217
Interest expenses		
-Overdrafts	(161)	(2,481)
Finance cost	(161)	(2,481)
Net finance income	402,964	734,736

12 Income tax expenses

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

	Year ended 31 December 2014	2013
Current tax on profit for the year	5,914,909	6,089,153
Deferred income tax [Note 22]	52,966	13,799
	5,967,875	6,102,952

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

	Year ended 31 December 2014	2013
Profit before tax	14,586,590	15,243,442
Tax calculated at tax rate of 40% (2013- 40%)	5,834,636	6,097,377
Tax effects of:		
Tax on expenses not deductible for tax purposes	287,867	282,493
Tax on expenses deductible for tax purposes	(141,296)	(144,274)
Tax effect on rate differentials	(13,332)	(132,644)
Tax charge	5,967,875	6,102,952

Domestic sales constitute of 99.6% of total sales. Therefore no detailed reconciliation is presented on the effect of effective tax rates for export sales and leaf exports. The effective tax rate on interest income is also excluded.

13 Earnings per share

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

	Year ended 31 December 2014	2013
Net profit attributable to shareholders (in thousands)	8,618,715	9,140,490
Weighted average number of shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs.)	46.01	48.80
Diluted earning per share (Rs.)	46.01	48.80

14 Property, plant and equipment

	Freehold land	Freehold buildings	Capital work in progress	Building improvements / upgrade	Leasehold buildings	Machinery / equipment	Motor vehicles	Total
Cost								
At 1 January 2013	96,941	318,824	235,826	85,526	30,930	3,107,407	105,259	3,980,713
Additions	-	16,633	-	32,912	-	389,637	-	439,182
Disposals / transfers	-	-	(155,478)	-	-	-	(45,861)	(201,339)
Adjustments	-	-	-	-	-	-	-	-
Write-offs	-	(10,109)	-	(1,409)	(1,937)	(85,781)	(66)	(99,302)
At 31 December 2013	96,941	325,348	80,349	117,028	28,994	3,411,264	59,331	4,119,255
Accumulated depreciation								
At 1 January 2013	-	204,570	-	33,937	29,649	1,991,576	86,280	2,346,012
Charge for the year [Note 10]	-	5,208	-	10,137	109	177,178	1,103	193,735
Disposals	-	-	-	-	-	-	(33,925)	(33,925)
Adjustments	-	-	-	-	-	104,703	-	104,703
Write-offs	-	(8,100)	-	(1,088)	(1,570)	(79,748)	(60)	(90,566)
At 31 December 2013	-	201,677	-	42,988	28,187	2,193,712	53,398	2,519,962
Closing net book amount	96,941	123,670	80,349	74,041	808	1,217,551	5,933	1,599,295
Cost								
At 1 January 2014	96,941	325,348	80,349	117,028	28,994	3,411,264	59,331	4,119,255
Additions	-	-	286,521	-	-	95,852	-	382,373
Disposals	-	-	-	-	-	-	(8,534)	(8,534)
Transfers	-	-	(71,178)	-	-	-	-	(71,178)
Write-offs	-	-	-	-	-	(22,933)	-	(22,933)
At 31 December 2014	96,941	325,348	295,692	117,028	28,994	3,484,183	50,797	4,398,983
Accumulated depreciation								
At 1 January 2014	-	201,677	-	42,988	28,187	2,193,712	53,398	2,519,962
Charge for the year [Note 10]	-	5,159	-	11,348	92	184,159	-	200,758
Disposals	-	-	-	-	-	-	(7,680)	(7,680)
Adjustments	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	-	(22,493)	-	(22,493)
At 31 December 2014	-	206,836	-	54,337	28,278	2,355,378	45,717	2,690,546
Closing net book amount	96,941	118,512	295,692	62,691	716	1,128,805	5,079	1,708,437

(a) Property, plant and equipment includes fully depreciated assets which are in use, the cost of which as at the end of the reporting date amounted to Rs. 1,736,223 (2013 - Rs. 1,412,501).

(b) Depreciation expenses of Rs. 200,758 (2013 - 298,438) have been charged to the Statement of Comprehensive Income.

14 Property, plant and equipment (contd)

14.1 Company Property

The freehold land and buildings were valued by Mr. Arther Perera and Company, Incorporated Valuers. The Company follows the cost model as stated in its accounting policy to measure the property, plant and equipment. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties amounts to Rs. 4,647,157,100.

15 Intangible assets

Intangible assets comprise of computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 3.5.

	At 31 December	
	2014	2013
Cost		
At 1 January	110,979	83,280
Additions	-	29,698
Write-off	-	(1,999)
At 31 December	110,979	110,979
Amortisation		
At 1 January	83,336	79,489
Additions	9,899	5,498
Write-off	-	(1,651)
At 31 December	93,235	83,336
Net book value	17,744	27,643

16 Post employment benefits

(a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 2 million (2013 - Rs. 2 million) is not funded and has been provided for in the books of the Company.

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 275 (2013 - 278) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy (the 'Plan asset').

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

	At 31 December	
	2014	2013
Present value of funded obligation	526,665	463,361
Fair value of plan assets	(1,116,389)	(1,059,900)
Surplus of funded plans	(589,724)	(596,539)
Present value of unfunded obligations	2,189	2,189
Asset in the Statement of Financial Position	(587,535)	(594,350)

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

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2013	585,896	(1,033,397)	(447,501)
Current service cost	32,093	-	32,093
Interest expense / (income)	67,352	(123,564)	(56,212)
	99,445	(123,564)	(24,119)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	7,286	7,286
- Loss from change in financial assumptions	18,557	-	18,557
- Experience gains	(148,573)	-	(148,573)
	(130,016)	7,286	(122,730)
Contributions:	-	-	-
Payments from plans:	(89,775)	89,775	-
At 31 December 2013	465,550	(1,059,900)	(594,350)
At 1 January 2014	465,550	(1,059,900)	(594,350)
Current service cost	36,278	-	36,278
Interest expense / (income)	49,729	(119,524)	(69,795)
	86,007	(119,524)	(33,517)
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(13,625)	(13,625)
- Loss from change in financial assumptions	19,047	-	19,047
- Experience (gains)/loss	34,910	-	34,910
	53,957	(13,625)	40,332
Contributions:	-	-	-
Payments from plans:	(76,660)	76,660	-
At 31 December 2014	528,854	(1,116,389)	(587,535)

16 Post employment benefits (contd)

The principal assumptions the Company used are as follows:

	At 31 December 2014	2013
Discount rate per annum	11.00%	11.70%
Annual salary increment rate	12.00%	12.00%

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

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(26,786)	29,877
Annual salary increment rate	1.00%	29,347	(26,810)

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

The Company has used 11% as the discounting rate as it was the average rate of the government bonds issued for the last 24 months period (weighted average duration of the defined benefit obligation is 6 years). However, if the prevailing market yield rates were applied, i.e. 8%, the defined benefit obligation would increase by Rs. 101 million.

17 Financial instruments

(a) Financial instrument by category

At 31 December 2013

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

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

At 31 December 2014

	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per Statement of Financial Position				
Trade and other receivables				
excluding pre-payments	1,043,123	-	-	1,043,123
Cash and cash equivalents	9,009,756	-	-	9,009,756
Total	10,052,879	-	-	10,052,879

	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per Statement of Financial Position			
Trade and other payables			
excluding non financial liabilities	-	7,123,785	7,123,785
Total	-	7,123,785	7,123,785

(b) Credit quality of financial assets

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

(i) Cash at bank and short term bank deposits

	Rating	At 31 December 2014	2013
Cash at bank			
	AAA (lka)	8,915,558	7,647,112
	AA+ (lka)	52,753	8,446
	AA (lka)	39,231	20,785
	A- (lka)	529	24,566
	AA- (lka)	1,534	1,536
	BB+ (lka)	-	7,604
		9,009,605	7,710,049
Short term deposits			
	AAA (lka)	-	535,258
Total cash at bank and the short term deposits		9,009,605	8,245,307

17 Financial instruments (contd)

(b) Credit quality of financial assets (contd)

(ii) Trade Receivable

	At 31 December	
	2014	2013
New Customers	-	-
Existing customers less than 6 months	763,566	1,083,789
	763,566	1,083,789

18 Inventories

	At 31 December	
	2014	2013
Raw materials	2,095,985	2,059,104
Work-in-progress	21,014	15,797
Finished goods	746,300	747,297
Consumables	256,874	204,528
Provision for obsolete and slow moving inventories	(55,318)	(64,349)
	3,064,855	2,962,377

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

19 Trade and other receivables

	At 31 December	
	2014	2013
Current		
Trade receivables	763,566	1,083,789
Receivables from related parties [Note 29 (ii)]	80,511	68,792
Advances to farmers	-	24,308
Staff loans	77,515	76,878
Other receivables	43,928	389,703
Less: provision for impairment of other receivables	(9,808)	(7,864)
	955,712	1,635,606
Non-current		
Receivables (staff loans)	133,734	97,539
Total trade and other receivables	1,089,446	1,733,145

(i) Trade receivables wholly consist of amounts receivable from distributors.

(ii) Trade receivables at 31 December 2014 of Rs. 764 million (2013 - Rs. 1,084 million) are fully performing.

(iii) Provision for impairment of other receivables has been made on a case by case basis on long outstanding balances included under other receivables.

(iv) The movement of the provision for impairment of other receivables over the year as follows:

	2014	2013
At 1 January	7,864	20,876
Provision for the period	3,479	4,682
Write-offs during the period	-	(16,630)
Reversals during the period	(1,535)	(1,064)
At 31 December	9,808	7,864

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

	At 31 December	
	2014	2013
Trade receivables	763,566	1,083,789
Receivables from related parties	80,511	68,792
Advances to farmers	-	24,308
Staff loans	211,249	174,417
Other receivables	43,928	389,703
Less: provision for impairment	(9,808)	(7,864)
	1,089,446	1,733,145

20 Cash and cash equivalents

	At 31 December	
	2014	2013
Cash at bank and in hand	9,009,756	7,715,339
Short term investments	-	535,258
	9,009,756	8,250,597

For the purposes of the Statement of Cash Flows, the year-end cash and cash equivalents comprise the following:

	At 31 December	
	2014	2013
Cash and bank balances	9,009,756	8,250,597
	9,009,756	8,250,597

21 Stated capital

	Number of shares	Value Rs.
At the beginning and end of the year - 2014	187,323,751	1,873,238

All issued shares are fully paid.

22 Deferred income tax liabilities

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

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

	At 31 December	
	2014	2013
At beginning of the year	295,218	281,419
Charge for the year [Note12]	52,966	13,799
At end of the year	348,184	295,218

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

	Accelerated depreciation	Defined benefit obligation	Total
Balance at 1 January 2013	(282,295)	876	(281,419)
Charged to the Statement of Comprehensive Income	(13,799)	-	(13,799)
At 31 December 2013	(296,094)	876	(295,218)
Balance at 1 January 2014	(296,094)	876	(295,218)
Charged to the Statement of Comprehensive Income	(52,966)	-	(52,966)
At 31 December 2014	(349,060)	876	(348,184)

23 Trade and other payables

	At 31 December	
	2014	2013
Trade payables	480,497	93,610
Payable to related parties [Note 29 (ii)]	1,177,474	535
Accrued expenses	1,604,884	1,940,612
Other payables	3,860,929	4,189,654
	7,123,784	6,224,411

Other payables of the Company include excise special provision tax payable amounting to Rs. 3,771 million (2013 - Rs. 3,241 million) which has been consolidated to include Value Added Tax (2013 - Rs. 903 million) and Nation Building Tax (2013 - Rs. 600 million). These amendments were introduced through the National Budget presented by the Government of Sri Lanka and was notified by the Department of Inland Revenue.

24 Dividends payable

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

	At 31 December 2014	2013
At 1 January	955,351	805,492
Dividend declared [Note (c)]	9,000,906	8,748,019
Dividend paid	(9,088,038)	(8,565,022)
Payments transfers to unclaimed dividend [Note (b)]	(43,995)	(33,138)
At 31 December	824,224	955,351

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

	2014	2013
At 1 January	122,733	96,985
Transfers	43,995	33,138
Payments	(3,988)	(2,389)
Write back	(5,475)	(5,001)
At 31 December	157,265	122,733

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

	2014		2013	
	per share	Rs.	per share	Rs.
Final dividend - 2013	8.55	1,601,618	6.50	1,217,604
First interim - 2014	10.80	2,023,097	7.70	1,442,393
Second interim - 2014	13.20	2,472,673	15.00	2,809,856
Third interim - 2014	11.10	2,079,294	12.40	2,322,815
Fourth interim - 2014	4.40	824,224	5.10	955,351
	48.05	9,000,906	46.70	8,748,019

25 Net assets per share

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

	At 31 December 2014	2013
Net assets attributable to shareholders (in thousands)	3,898,445	4,315,493
Weighted average number of shares in issue	187,323,751	187,323,751
Net assets per share (Rs.)	20.81	23.04

26 Contingent liabilities

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

(a) Guarantees issued to Commissioner General of Excise in lieu of obtaining certificate of registration in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 - Rs. 500 million (2013 - Rs. 500 million).

(b) Guarantees issued to Director General of Customs in lieu of custom duty payable on clearing consignments amounting to Rs. 122 million (2013- Rs. 118 million).

(c) Shipping Guarantees issued amounting to Rs. 15.9 million (2013 - Rs. 2.1 million), for goods cleared before the arrival of original bank documents.

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

27 Commitments

Capital commitments

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

Financial commitments

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

Operating lease commitments - Company as lessee

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

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

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

	At 31 December	
	2014	2013
Less than 1 year	94,461	16,599
More than 1 year and less than 5 years	163,611	96,565
More than 5 years	2,909	7,721
Total	260,981	120,885

28 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	At 31 December	
	2014	2013
Profit before tax	14,586,590	15,243,442
Adjustments for:		
Depreciation [Note 14]	200,758	298,438
Amortisation of intangible assets [Note 15]	9,899	5,498
Write-off of debts	-	22,099
Interest expense [Note 11]	161	2,481
Interest received [Note 11]	(403,125)	(737,217)
Notional interest income	(1,786)	(849)
Current service cost and net interest on retirement benefit obligation [Note 16]	(33,517)	(24,119)
Provision for obsolete inventories and doubtful debts	9,938	68,071
Gain on disposal of property, plant and equipment [Note 9]	(5,080)	(9,303)
Changes in working capital :		
- inventories	(110,473)	(191,581)
- receivables	641,755	743,864
- trade and other payables	900,907	(671,977)
Cash generated from operations	15,796,027	14,748,847

29 Related party transactions

Transactions with related parties

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

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

29 Related party transactions (contd)

The following transactions were carried out with related parties:

(i) Purchase of goods / service

	At 31 December 2014	At 31 December 2013
BAT (Hamburg International)	8,266	-
BAT AsPac Service Centre Sdn Bhd	117,001	58,469
BAT Investments Limited	548,780	496,882
BAT Asia Pacific Regional Office	-	49,570
BAT Korea	5,265	16,208
BAT International Limited	2,997	6,925
BAT (Holdings) Limited	29,081	51,348
BASS (GSD) Limited	592,576	318,923
BAT GSD KL	-	142
BAT Global Leaf Pool	-	263
BAT Brazil	16,878	8,864
BAT Bangladesh	-	754
BAT Hong Kong	-	408
Tobacco Importers & Manufacturers	4,083	2,018
Pakistan Tobacco Company Limited	-	1,229
BAT Singapore	207,067	92,199
	1,531,994	1,104,202

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

	At 31 December 2014	At 31 December 2013
Receivable from related parties [Note 19]		
BASS (GSD) Limited	-	53,167
Pakistan Tobacco Company Limited	5,526	7,273
BAT Singapore	-	4,328
BAT Marketing (Singapore)	74,985	-
BAT Holdings	-	1,865
BAT Hong Kong	-	1,094
BAT Cambodia	-	1,065
	80,511	68,792
Payable to related parties [Note 23]		
BASS (GSD) Limited	423,865	-
BAT AsPac Service Centre Sdn Bhd	50,084	-
BAT (Hamburg International)	8,267	-
BAT (Holdings) Limited	25,649	-
Tobacco Importers & Manufacturers	4,083	-
BAT Singapore	116,746	-
BAT Investments Limited	548,780	-
Pakistan Tobacco Company Limited	-	535
	1,177,474	535

(iii) Key management compensation

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

	At 31 December	
	2014	2013
Salaries and other short term employee benefits	119,705	106,578
Termination benefits	-	-
Post-employment benefits	-	-
Share based payments	-	-
Other long term employee benefits	-	-

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

30 Employee share option scheme

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

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

At 31 December 2014, the fair value of the phantom shares granted was Rs. 21 million, which was determined using "Black-Scholes" valuation method.

31 Events after the reporting period

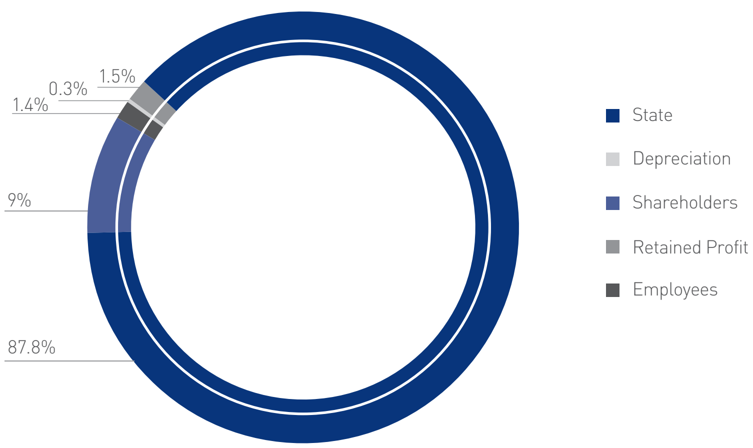
No material events have occurred since the end of the reporting date which would require adjustments to, or disclosure in the financial statements except for the following:

A Super Gain Tax has been imposed as a one off payment on any individual or a company who or which has earned profits over Rs. 2,000 million in the year of assessment 2013/2014, at 25% of such profits through the interim budget presented to the parliament. This is considered a non-adjusting event as per the LKAS 10 - Events after the reporting period. In the absence of guidance on how to determine the Super Gain tax liability, an estimate of its financial effect to the financial statements of the Company cannot be determined.

Statement of Value Added

	2014 Rs.000s	2013 Rs.000s
Gross revenue	87,900,479	89,454,665
Supplied materials and services	(6,194,022)	(5,849,048)
Net interest income	402,964	734,735
Other operating income	15,990	50,866
	82,125,411	84,391,217
State	72,129,194	73,940,000
Shareholders	7,399,288	7,530,415
Employees	1,166,845	1,006,792
Depreciation	210,657	303,935
Retained Profit	1,219,427	1,610,075
	82,125,411	84,391,217

Statement of Value Added



Shareholder Information

Ordinary Shareholding

Stated Share Capital - Rs.	1,873,237,510
Number of shares representing the Entity's stated capital	187,323,751
Number of Shareholders as at 31 December 2014	3,627 (2013 -3,785)

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	2,476	566,236	0.30	35	11,491	0.01	2,511	577,727	0.31
1001-10,000	935	2,697,147	1.44	47	191,979	0.10	982	2,889,126	1.54
10,001-100,000	81	2,169,234	1.16	33	1,274,663	0.68	114	3,443,897	1.84
100,001-1,000,000	2	461,225	0.25	13	2,882,815	1.54	15	3,344,040	1.79
Over 1,000,000	-	-	-	5	177,068,961	94.53	5	177,068,961	94.53
Total	3,494	5,893,842	3.15	133	181,429,909	96.85	3,627	187,323,751	100.00

Computation of % of Public Shareholding

	31-Dec-14 No of Shares	31-Dec-13 No of Shares
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors' shareholding (including spouses and children)		
S.C.Ratnayake	644	644
	644	644
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors' shareholding (including spouses and children)	644	644
Public Holding	29,732,176	29,732,176
	187,323,751	187,323,751
Number of shareholders holding the Public Holding	3,625	3,783
Public Holding as a % of issued number of shares	15.87	15.87

	No of Shares	%	No of Shareholders	%
Individuals	5,956,616	3.18	3,432	94.62
Institutions	181,367,135	96.82	195	5.38
	187,323,751	100.00	3,627	100.00

CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

Year	2014	2013
No of share transactions for the year	3,838	5,593
No of Shares traded	2,000,947	2,647,985
Price Movements Rs.		
Highest	1,349.00	1,400.50
Lowest	960.00	720.00
Closing Price	1,060.10	1,184.40
Market Capitalisation (Rs. million) as at 31 December	198,582	221,866

20 Largest shareholders as at 31 December 2014

		31-Dec-14 No. of Shares	%	31-Dec-13 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.	1,654,700	0.88	1,731,856	0.92
4	HSBC INTL NOM Ltd - SSBT-Wasatch Frontier	1,217,442	0.65	391,621	0.21
5	HSBC INT NOM LTD - Coupland Cardiff Funds PLC	1,019,978	0.54	1,213,947	0.65
6	RBC Investor Services Bank-COELI SICAV	345,137	0.18	144,615	0.08
7	HSBC INTL NOM LTD-State Street London	335,672	0.18	-	0.00
8	Mrs Jasbinderjit Kaur Piara Singh	317,063	0.17	309,740	0.17
9	HSBC INTL NOM LTD-JPMCB	315,966	0.17	365,866	0.20
10	Miss Neesha Harnam	271,783	0.15	271,783	0.15
11	Seylan Bank PLC / Channa Nalin Rajamoney	254,100	0.14	290,000	0.15
12	Harnam Holdings SDN BHD	232,495	0.12	231,651	0.12
13	A I A Insurance Lanka PLC	207,125	0.11	300,000	0.16
14	HSBC INTL NOM Ltd - SSBT-Deutsche Bank	195,600	0.10	195,600	0.10
15	CB NY S/A Wasatch Frontier	183,590	0.10	-	0.00
16	Wembly Spirit Limited	170,200	0.09	170,200	0.09
17	HSBC INTL NOM Ltd - SSBT-Julius Baer	150,000	0.08	-	0.00
18	HSBC INTL NOM Ltd - UBS AG - Singapore	150,000	0.08	150,000	0.08
19	HSBC INTL NOM Ltd -BPMCB - J P Morgan Clearing	108,309	0.06	-	0.00
20	Mellon Bank NA	107,000	0.06	107,000	0.06
	Sub Total	180,413,001	96.31	179,050,720	95.58
	Others	6,910,750	3.69	8,273,031	4.42
	Total Shares	187,323,751	100.00	187,323,751	100.00

Notice of Meeting

NOTICE IS HEREBY given that the Eighty Fourth 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 , 31 March 2015 at 10.00 am for the following purposes :

(i) To receive consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31 December 2014 and the Report of the Auditors thereon.

(ii) To re-elect the following Directors.

- To re-elect Ms Premila Perera who comes up for retirement by rotation.
- To re-elect Stephan Matthiesen who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
- To re-elect Javed Iqbal who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
- To re-elect Dinesh Weerakkody who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
- To re-elect Kenneth George Allen who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.

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

(iv) To re-appoint Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board

Ranjan Seneviratne
Company Secretary

11 February 2015

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.

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Form of Proxy

(Please read the notes carefully before completing this form)

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

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

hereby appoint: .... of ....whom failing

Susantha Ratnayake	whom failing
Felicio Ferraz	whom failing
Stephan Matthiesen	whom failing
Premila Perera	whom failing
Javed Iqbal	whom failing
Dinesh Weerakkody	whom failing
Kenneth Allen	

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, 31st March 2015 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 2014		
(ii)	To re-elect Premila Perera who comes up for retirement by rotation.		
(iii)	To re-elect Stephan Matthiesen who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(iv)	To re-elect Javed Iqbal who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(v)	To re-elect Dinesh Weerakkody who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(vi)	To re-elect Kenneth George Allen who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.		
(vii)	To authorise the Directors to determine and make donations.		
(viii)	To re-appoint the Auditors and authorise the Directors to determine their remuneration.		

....

Signature

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

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

Instructions as to completion :

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

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

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

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

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

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

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

Corporate Information

NAME OF THE COMPANY
Ceylon Tobacco Company PLC
Reg. No. PQ 29

REGISTERED OFFICE
178, Srimath Ramanathan Mawatha,
Colombo 15

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

REGISTRARS
SSP Corporate Services (Private) Limited

LEGAL ADVISORS
Sudath Perera Associates
Attorneys-at-Law

Messrs Julius & Creasy
Attorneys-at-Law

Messrs FJ & G De Saram
Attorneys-at-Law

AUDITOR
Messrs PricewaterhouseCoopers

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

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

Designed & produced by
emagewise
Printed by Printel (Pvt) Ltd
Photography by Taprobane Street & Danush De Costa

CEYLON TOBACCO COMPANY

A member of the British American Tobacco Group