



PAVING OUR LEGACY

.....
SERVING OUR NATION FOR ANOTHER **100 YEARS**
.....



**CEYLON TOBACCO
COMPANY**

A member of the British American Tobacco Group

CEYLON TOBACCO COMPANY PLC
ANNUAL REPORT 2019



PAVING OUR LEGACY

SERVING OUR NATION
FOR ANOTHER 100 YEARS



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

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PAVING OUR LEGACY

SERVING OUR NATION
FOR ANOTHER **100 YEARS**

At Ceylon Tobacco Company PLC, we epitomise value creation. Our legacy spans over 100 years, during which time we have embraced our mission to enrich the Nation, harnessed opportunities for national growth, and nurtured strong and sustainable relationships with employees, business partners and communities. In short, we have continuously generated shared value for all our stakeholders.

We have continued to embrace an inclusive and empowering culture, creating a fulfilling and rewarding work environment for our next generation of leaders. Our commitment to protect the environment, enhance farmer livelihoods and support the communities where we operate has been pivotal to how we add value to society.

We will continue to pave an enduring legacy – a service to the Nation that will last another 100 years and more.

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OUR EVOLVED STRATEGY

The British American Tobacco Group (the Group) is committed to providing a 'Better Tomorrow' for all stakeholders. The Group recognises that we live in an age of relentless change. Consumers' desires and taste evolve, while societal attitudes are changing, providing us with growth opportunities we had not imagined before.

The Group purpose is to build 'A Better Tomorrow' by reducing the health impact of the business through offering a greater choice of enjoyable and less risky products for its consumers. The Group's growth model has evolved through the development of its portfolio in tobacco, nicotine and beyond, meeting consumers' evolving need for enjoyment and satisfaction. By building on strong foundations, the Group will build 'A Better Tomorrow' for consumers, employees, shareholders and society.

As a member of British American Tobacco, Ceylon Tobacco Company's strategy is aligned to the Group's strategy as articulated in this section of the report.

OUR EVOLVED STRATEGY

A Strategy for Accelerated Growth

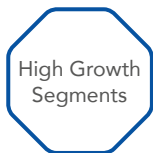
While combustible tobacco will be at the core of our business for some time to come, the Group aims to generate an increasingly greater proportion of its revenues from products other than cigarettes, thereby reducing the health impact of our business, and delivering 'A Better Tomorrow'.



OUR MISSION

Stimulating the senses of new adult generations : Today, we see opportunities to capture consumer moments, which have, over time, become limited by societal and regulatory shifts, and to satisfy evolving consumer needs and preferences. Our mission is to anticipate and satisfy this ever-evolving consumer: provide pleasure, reduce risk, increase choice and stimulate the senses of adult consumers worldwide.

MUST WINS



Driven by our unique and data-driven consumer insight platform (PRISM), we will focus on product categories and consumer segments across our global business that have the best potential for long-term sustainable growth.



By relying on a rigorous market prioritisation system (MAPS), we will focus the strengths of our unparalleled retail and marketing reach, as well as our regulatory and scientific expertise, on those markets and marketplaces with the greatest opportunities for growth.

HOW WE WIN



As one of the most long-standing and established consumer goods businesses in the world, we have a unique view of the consumer across four product categories, which is increasingly driven by powerful data and analytics. These insights ensure that the development and responsible marketing of our products is fit to satisfy consumer needs.



As consumer preferences and technology evolve rapidly, we rely on our growing global network of digital hubs, innovation super centres, world-class R&D laboratories, external partnerships and an upcoming corporate venturing initiative to stay ahead of the curve.



For over a century, we have built trusted and powerful brands that satisfy our consumers and serve as a promise for quality and enjoyment. We will focus on fewer, stronger and global brands across all our product categories, delivered through our deep understanding and segmenting of our consumers.



Few companies can claim over 150 million daily consumers, over 11 million retail points of sale, as well as a network of expert and skilled employees around the world. Staying connected to all of them, especially through digital means (including e-commerce), ensures better consumer connections, access to markets and innovations that offer sensorial enjoyment and satisfy consumer needs.



Our highly-motivated people are being empowered through a new ethos that is responsive to constant change, embodies a learning culture and is dedicated to continuous improvement. But we cannot succeed on our own, and our partnerships with farmers, suppliers and customers are also key for ensuring sustainable future growth.



The United States comprises nearly half of our global business. It is also the single largest economy in the world, the largest single centre for technology and the key driver of global consumer trends, and is where we have the deep consumer understanding and financial strength to support the delivery of our mission to stimulate consumer senses around the rest of the world.

OUR PURPOSE

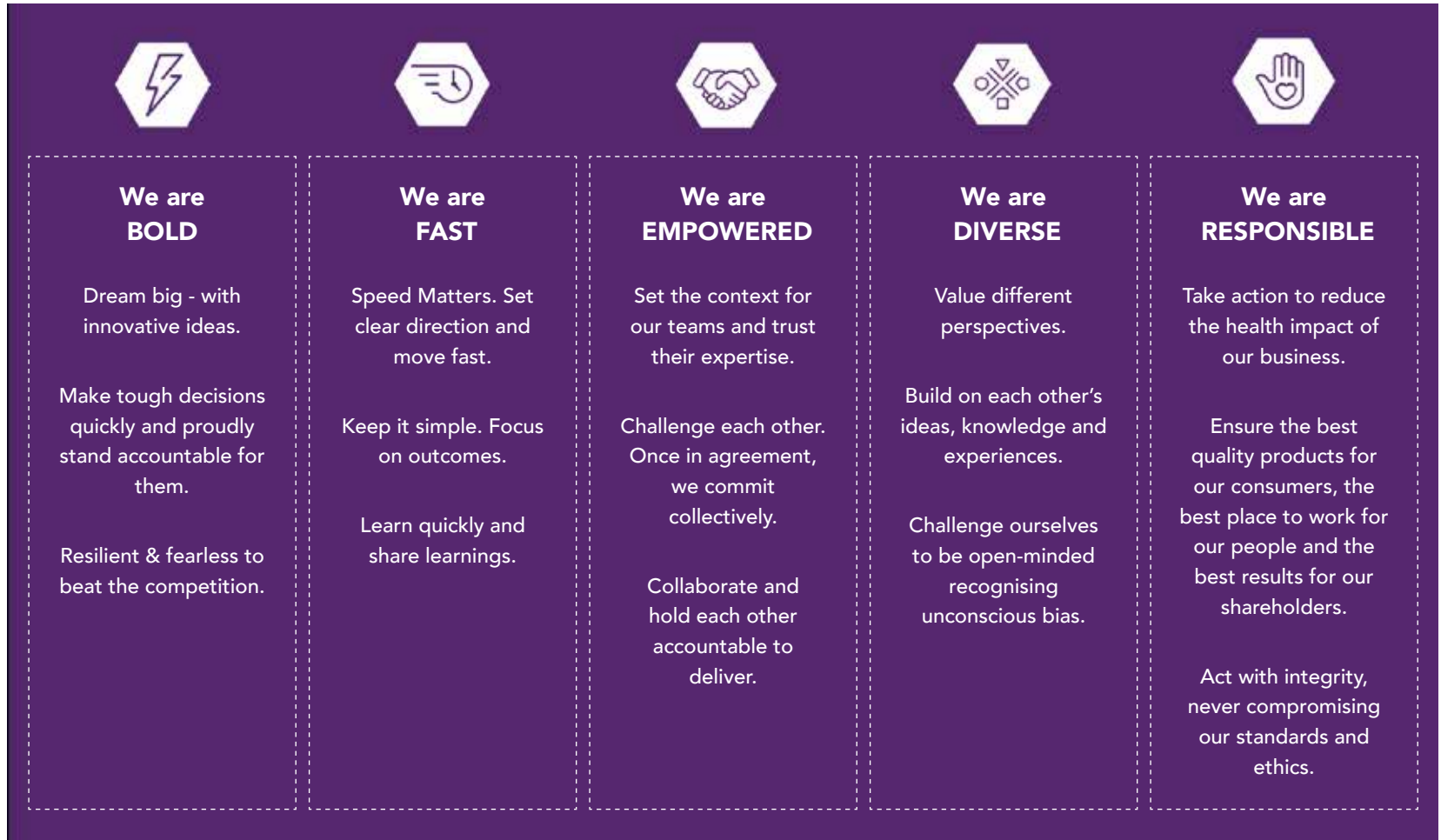
By stimulating the senses of new adult generations our purpose is to create 'A Better Tomorrow' for all our stakeholders as given below:

- Consumers: By responsibly offering enjoyable and stimulating choices for every mood and every moment, today and tomorrow;
- Society: By reducing the health impact of our business by offering a range of alternative products, as well as by reducing our environmental and social impacts;
- Employees: By creating a dynamic, inspiring and purposeful place to work; and
- Shareholders: By delivering sustainable and superior returns.

OUR EVOLVED STRATEGY

OUR ETHOS

A key driver of our ambition of building 'A Better Tomorrow' will be our ethos – an evolution of our guiding principles – which guides our culture and behaviours across the entire group. It has been developed with significant input from our employees, and ensures an organisation that is future fit for sustainable growth.



Our Sustainability Agenda

Our Sustainability Agenda has evolved aligned to the Group strategy. We have a long and proud history of sustainability achievements and today we transition from being a business where sustainability has always been important, to one where it is front and centre in all that we do.

As a company we have made significant progress on our sustainability journey over the past two decades. Yet our approach needs to constantly develop, much as the world around us is evolving – from increasing expectations of the role of business in contributing to the UN Sustainable Development Goals and addressing climate change; to evolving consumer preferences and the emergence of new category products, that offer potentially reduced risks to adult consumers.

The evolved strategy reflects our commitment to reducing the health impact of our business as our principal focus area, underpinned by excellence across our other environmental, social and governance (ESG) priorities.

Together, this approach helps create shared value for our consumers, society, our employees and shareholders, ultimately building towards 'A Better Tomorrow' not just for our business, but for all stakeholders.



PERFORMANCE HIGHLIGHTS

	Units	2019	2018	
Financial Highlights	Turnover	Rs. Million	141,342	145,298
	Government levies	Rs. Million	105,818	112,368
	Net revenue	Rs. Million	35,524	32,931
	Profit before tax	Rs. Million	28,691	27,477
	Profit after tax	Rs. Million	17,259	17,004
	Net assets	Rs. Million	4,623	5,359
	Interim dividends	Rs. Million	14,986	14,049
	Proposed final dividends	Rs. Million	2,272	2,954
	Total value added	Rs. Million	136,282	141,471
	Capital investment	Rs. Million	884	996
	Market Capitalisation	Rs. Million	206,112	265,063
	Value added per employee	Rs. Million	505	524
	Dividend pay-out	%	99.99	99.99
	Earnings per share	Rs.	92.13	90.78
	Market value per share (closing)	Rs.	1,100.3	1,415
	Net assets per share	Rs.	24.68	28.61
	Dividend per share (Interim and proposed final dividend)	Rs.	92.13	90.77
Social Highlights	Permanent employees	No.	270	270
	Training hours	Hours	13,373	4,664
	Female participation in management roles	%	23	18
	Total livelihoods supported	No.	176,000+	176,000+
	Payments to tobacco farmers	Rs. Million	1,419	925
Environmental Highlights	SADP beneficiaries	No.	76,396	76,396
	Energy consumption	Gj	39,476	39,186
	Energy efficiency	Gj/mce	7.18	7.12
	Water consumption	Cu.m	36,465	32,251
	Water efficiency	Cu.m/mce	7.32	5.90
	GHG emissions	tCO2e	4,665	4,264
	Emission intensity	tCO2e/mce	0.94	0.78
Waste recycled	%	87	92	
Investment in EHS activities	Rs. Million	60	61	

tCO2e - Tonnes of Carbon Dioxide equivalent

gj - Giga joules

mce - Million cigarette equivalent

cu.m - Cubic metres

OUR PERFORMANCE



Rs. 120.4 Bn

Contributed to government revenue in 2019.



44,000+

Jobs created across our value chain.



Rs. 12.2 Bn

Infused into the local and rural economies in 2019.



Rs. 206 Bn

Total Market Capitalisation as at 31 December 2019.



114+ Years

of operations in Sri Lanka.



6%

of the Government's total tax revenue.



176,000+

Livelihoods supported across our supply chain.

People & Culture

We have built and nurtured a fulfilling, rewarding and responsible work environment for our

270
employees.

Sustainable Farmer Livelihoods

We support

20,000+

contracted tobacco farmers to optimise profitability by helping them increase their yields and productivity.

Community Empowerment

We assist

76,300+

SADP beneficiaries grow food crops in home gardens to enhance food security and generate additional income.

CHAIRMAN'S REVIEW



A white, stylized signature of William Pegel, written in a cursive script.

WILLIAM PEGEL
Chairman

DEAR SHAREHOLDER,

I am pleased to report that Ceylon Tobacco Company PLC (the Company) continued to deliver on its shareholder commitments to record a 4% growth in profit before tax to Rs. 28.69 billion amidst continued challenges. Moderating economic conditions and subdued consumer sentiments following the April terror attacks, coupled with two excise-led price



Rs. 92.13
Earning Per Share



Rs. 92.13
Dividend Per Share



99.99%
Dividend Payout Ratio

increases during the year, had a considerable impact on volumes. Despite these challenges, the Company's strategic emphasis on cost and distribution efficiencies, brand development and an astute product strategy enabled a growth earnings during the year, attesting to the relentless spirit and commitment of our team.

The Company also maintained its position as one of the most valuable listed companies in the country, with a Market Capitalisation of Rs. 206 billion by end-December 2019, which accounted for 7% of the Colombo Stock Exchange's (CSE) total Market Capitalisation.

Improved profitability resulted in the Company's basic earnings per share increasing by 1% to Rs. 92.13 in 2019 while Net Asset Value per Share (NAVPS) amounted to Rs. 24.68. The Board has approved a final dividend of Rs. 12.13 per share, which takes the total dividend per share for 2019 to Rs. 92.13. The Company continues to be one of the highest dividend payers in the CSE with an average dividend pay-out ratio of 99.99%.

Sri Lanka's macro-economic growth moderated during the year, reflecting both global headwinds and domestic challenges. Gross Domestic Product (GDP) growth slowed to 2.7% during the first 9 months of the year, as spill-over effects of the April terror attacks together with prolonged implications of the political impasse in October 2018 affected consumer and investor sentiments. Despite a dual reduction in policy rates, market interest rates remained high for most part of the year, only recording a gradual decline by the end of 2019 in response to monetary policy measures. Meanwhile the Sri Lankan Rupee remained relatively stable throughout the year, depreciating by 1% against the US Dollar to close the year at Rs.181.38.



"The Company continued to deliver on its shareholder commitments to record a 4% growth in profit before tax to Rs. 28.69 billion amidst continued challenges."



"The Company maintained its position as one of the most valuable listed companies in the country, with a Market Capitalisation of Rs. 206 billion by end-December 2019, which accounted for 7% of the CSE's total Market Capitalisation."



"The Company continues to be one of the highest dividend payers in the CSE with an average dividend pay-out ratio of 99.99%."

CHAIRMAN'S REVIEW

"THE COMPANY'S WIN-WIN-WIN PROPOSITION REFLECTS A MULTI-STAKEHOLDER APPROACH TO VALUE CREATION AND FOCUSES ON CONTRIBUTING TO GOVERNMENT REVENUE, DEVELOPING THE SRI LANKAN WORKFORCE, EMPOWERING COMMUNITIES ACROSS OUR VALUE CHAIN AND GENERATING SUSTAINABLE SHAREHOLDER RETURNS."

As one of Sri Lanka's most economically impactful entities, the Company has been a partner in national socio-economic progress for well over a century. The Company's win-win-win proposition reflects a multi-stakeholder approach to value creation and focuses on contributing to government revenue, developing the Sri Lankan workforce, empowering communities across our value chain and generating sustainable shareholder returns. The Company maintains its position as the single largest tax contributor to the Government, with tax payments of Rs. 120.4 billion in 2019 accounting for nearly 6% of the total tax revenue. Meanwhile, value injection to the country's local economy amounted to Rs. 12.2 billion in 2019 as we continued to support over 176,000 livelihoods engaged in farming, manufacturing and retailing. We also remain deeply committed to the Group's vision for long-term sustainability. Globally recognised as a sustainability champion, British American Tobacco PLC (BAT) was the first tobacco company to be included in the DOW Jones Sustainability Index (DJSI) and has consistently maintained its position as the industry leader in economic, environmental

and social performance based on the rankings of the DJSI. Locally, the Company's flagship CSI initiative, the Sustainable Agriculture Development Programme (SADP), has directly contributed towards poverty alleviation, empowering more than 76,300 beneficiaries in over 19,600 economically underprivileged rural families through agricultural knowledge transfer, resource assistance and skill development.

The consistent growth of Sri Lanka's illicit cigarette market continues to be a deeply concerning issue threatening both the Company's commercial viability and its ability to contribute to national development. As has been proven in other markets, attempts to reduce tobacco consumption through excessive price hikes will typically defeat the Government's public health objectives and deprive the State of taxes as it results in the expansion of smuggling of cigarettes. Given the health risks associated with our products, we understand that regulation is necessary although we urge the Government to pursue balanced and evidence-based regulation, which delivers on public health policy goals while preserving the rights of adult consumers. We

strongly believe that a level playing field across the entire tobacco industry will not only ensure sustainable growth in government revenue but also ensure that the Government delivers on its commitment to public health while protecting the rights of the legitimate industry to operate and continuously generate value to its stakeholders.

The Company continues to benefit from world-class corporate governance standards; following BAT's acquisition of Reynolds America in 2018, the Group's governance practices have been further strengthened to comply with relevant US laws and regulations. In 2019, the Company adopted the Group's new Investor Relations Policy, which sets out the guidelines for proactive and transparent shareholder relations. During the year the Company also adopted the Group's updated Investigation Policy and revised Standards of Business Conduct (SOBC). I am happy to report that during the year there were no reportable departures from any internal policies including the Company's SOBC.

Acknowledgements

I join the Board in expressing my deep regret over the demise of Mr. Kenneth Allen who served the Board as a Non-Executive Director since 2014. I would like to place on record my appreciation for his invaluable contributions over the years. I would also like to take this opportunity to extend my gratitude to Mr. Syed Javed Iqbal who served as Chairman and Non-Executive Director and resigned from the Board in August 2019. I also welcome Mr. Usman Zahur and Mr. Nedal Salem who were

appointed to the Board during the year. I thank my colleagues on the Board and look forward to working with you in the coming years. Mr. Nedal Salem was appointed as the Managing Director and CEO in May 2019, following the completion of Mr. Michael Koest's tenure and I extend my congratulations and appreciation to them both for the results delivered during the year. I also take this opportunity to thank the committed and dynamic team at the Company and all its stakeholders for their continued support over the years.



WILLIAM PEGEL

Chairman



"The consistent growth of Sri Lanka's illicit cigarette market continues to be a deeply concerning issue threatening both the Company's commercial viability and its ability to contribute to national development."



"We urge the Government to pursue balanced and evidence-based regulation, which delivers on public health policy goals while preserving the rights of adult consumers."

MANAGING DIRECTOR AND CEO'S REVIEW



NEDAL SALEM

Managing Director and CEO

DEAR SHAREHOLDER,

The Company demonstrated its resilience in a year of significant external challenges to drive continued stakeholder value creation. Despite a 17% decline in volumes stemming from two-excise led price increases in 2019, the Company delivered a growth in profit after tax for the year to Rs. 17.26 billion supported by a timely product portfolio strategy, ongoing emphasis



Rs. 120.4 Bn

Contributed to government revenue via excise & taxes



176,000+

Livelihoods supported across our value chain



Rs. 12.2 Bn

Infused into local economy through farming, manufacturing and selling

on distribution and supply chain efficiencies and the commitment of a high-performing team driving results. I am happy to report that in 2019, the Company delivered an earnings per share of Rs. 92.13 with a 99.99% dividend pay-out ratio.

Operating Landscape

The operating environment presented numerous obstacles to growth in 2019; the two unprecedented excise-led price increases during the year resulted in the average price of a legal cigarette escalating by 17%, outpacing general inflation levels by nearly 300%. This increase coupled with a sharp downturn in economic activity and money circulation following the Easter Sunday attacks had a significant impact on consumer affordability. Consequently, the Company's sales volumes declined compared to the previous year and for the first time, government revenue generated through excise, other levies and taxes also declined by 4% compared to the previous year. Legal cigarettes in Sri Lanka are now the most expensive in the world, (in international dollars based on purchasing power parity) a phenomenon that has pushed price pressured consumers to smoke cheaper tobacco products such as beedi and smuggled cigarettes.

As a responsible corporate citizen and an organisation, which supports national development, we remain deeply concerned by the growth in cheaper tobacco products such as beedi and smuggled cigarettes, which erode government revenue and defeat its public health objectives. Alarming, by 2019, undertaxed beedi and smuggled cigarettes that evade taxes altogether accounted for 61% and 8% of the total smoking tobacco market respectively.



"Undertaxed beedi and smuggled cigarettes that evade taxes altogether accounted for 61% and 8% of the total smoking tobacco market respectively."



"Despite accounting for only 31% of the tobacco market, the Company contributed nearly 97% of revenue from tobacco-related taxes and levies."



"We urge the Government to level the playing field through implementation of a more equitable excise tax framework and evidence-based tobacco control policies and regulations across the board for all tobacco products."

MANAGING DIRECTOR AND CEO'S REVIEW

"THE COMPANY'S MULTI-STAKEHOLDER STRATEGY TOWARDS VALUE CREATION IS CENTERED ON A WIN-WIN-WIN APPROACH; THIS DEMONSTRATES OUR COMMITMENT TO DRIVE CONSISTENT GROWTH IN GOVERNMENT REVENUE, DEVELOPING CAPABILITIES AMONGST OUR EMPLOYEES AND VALUE CHAIN PARTNERS, GIVING BACK TO THE COMMUNITIES WE OPERATE IN AND DRIVING SUSTAINABLE SHAREHOLDER VALUE."

It is estimated that the illicit market grew by 45% during the year, resulting in a loss of Rs. 21 billion in government revenue. Despite accounting for only 31% of the tobacco market, the Company contributed nearly 97% of revenue from tobacco-related taxes and levies. Unfortunately, in the past year as well, the efforts of the tobacco control community in Sri Lanka were focussed solely on the legal manufacturer of cigarettes – CTC, while ignoring the growing threats from beedi and smuggled products. Repeated attempts to reduce tobacco consumption through excise and tax hikes have failed due to the absence of a cohesive national strategy to restrict smuggling, which is now estimated to be over 740 million sticks of illicit cigarettes per annum. Furthermore, the escalating price disparity between legal cigarettes and the undertaxed and relatively under regulated beedi industry have once again provided further impetus for the growth of the latter. As an issue that threatens the sustainability of the legal cigarette business, deprives the state of taxes and defeats its public health objectives, we urge the Government to level the playing field through

the implementation of a more equitable tax framework and evidence-based tobacco control policies and regulations across the board for all tobacco products.

Delivering on Our Strategy

Against the backdrop of this challenging operating landscape, I am pleased to report that, the Company delivered yet another year of commendable results driven by the intense focus we placed on enhancing internal efficiencies and fine-tuning operations.

The Company's multi-stakeholder strategy towards value creation is centred on a win-win-win approach; this demonstrates our commitment to drive consistent growth in government revenue, developing capabilities amongst our employees and value chain partners, giving back to the communities we operate in and driving sustainable shareholder value. We hope to drive this long-term aspiration by continuously strengthening our employee value proposition, nurturing mutually beneficial relationships with our farmers, distributors and retailers while delivering

consistent financial performance, which fulfil the revenue objectives of both the Government and our shareholders.

Over the years we have developed deep insights into adult consumer preferences and behaviour. We recognise that not all consumers are the same and offer a range of products of international standards and innovation across our portfolio. We are committed to delivering value to our consumers through better product propositions and for us growth is not about encouraging more people to smoke but understanding and meeting their evolving preferences.

The Group aims to build 'A Better Tomorrow' by reducing the health impact of our business through offering a greater choice of less risky products that continue to satisfy consumers' evolving needs. BAT has made a step change in this regard providing adult consumers with a range of reduced risk products through its portfolio of New Categories.

During the year we also remained steadfast in our commitment to creating shared value to over 176,000 supply chain partners infusing over Rs. 12.2 billion into the local economy. Strategic emphasis was also placed on ensuring the sustainability of our supply chain. We continued to support over 20,000 tobacco farmers while injecting Rs. 1.4 billion into the rural economy through leaf purchasing during the year, directly contributing to the socio-economic growth of underprivileged rural areas. Ongoing investments in propagating best practices in agriculture and building tobacco farmers' capabilities enabled a considerable

improvement in yields while enhancing farmers' income generation capacity. We offer tobacco farmers a holistic value proposition, including the guaranteed purchase of their total crop at a pre-agreed price, providing all resources, dissemination of sustainable agricultural practices and the development of infrastructure, which all contribute to the creation of sustainable farmer livelihoods.



270

Employees



20,000+

Tobacco farmers



58,700+

Retailers

During the year we also focused on further optimising our route to market strategy, proactively monitoring and making efficiency improvements to enhance the availability of our products in the market. In 2019, we infused Rs. 5 billion into the local economy via trade and supported the livelihoods of over 58,700 retailers across the island. We remain committed to developing and contributing to the sustainability of our business partners through a holistic value proposition, which includes training and implementation of world-class standards.

As part of a global organisation, which emulates best-in-class HR practices, we have a lot to offer in developing the capabilities and competencies of our Sri Lankan workforce. We continued to make substantial investments in talent development during the year, investing Rs. 54 million in providing training opportunities to more than 80% of our team. The Company offers a wide range of functional and leadership development programmes to build a strong talent pipeline and accelerate the development of our next generation of leaders. Having clearly understood our employees' preference for overseas exposure, we seconded 04 employees to BAT's regional and global markets during the year. We also strive to create a culture of knowledge sharing through mentoring and coaching programmes. The Company continues to be an employer of choice, as it attracts and recruits the right talent at the right time. I am extremely proud of our agile, dynamic and professional team of 270 employees that remain the strength behind this resilient organisation.



"We continued to make substantial investments in talent development during the year, investing Rs. 54 million in providing training opportunities to more than 80% of our team."



"We injected Rs. 1.4 billion into the rural economy through leaf purchasing, directly contributing to the socio-economic growth of underprivileged rural areas."



"The Company continues to make considerable investments in the Sustainable Agriculture Development Programme, which has directly contributed to fostering socio-economic progress for more than 19,600 underprivileged families."

MANAGING DIRECTOR AND CEO'S REVIEW

Commitment to Sustainability

As Sri Lanka's single largest contributor to government tax revenue and an organisation with a deep-rooted presence across the country's rural agricultural network, we are deeply committed to propagating economic, social and environmental sustainability across our operations. In 2019, the Company contributed Rs. 120.4 billion in taxation to the Government, representing 6% of the State's total tax revenue. Meanwhile, value injection to the rural economy increased by 7% during the year, as we sourced 100% of our tobacco leaf requirement locally. The Company continues to make considerable investments in its flagship Corporate Social Investment (CSI) project - the Sustainable Agriculture Development Programme, which has directly contributed to fostering socio-economic progress for more than 19,600 underprivileged families across the country.

Acknowledgements

As I look forward to an exciting year of opportunities, I would like to extend my gratitude to the Chairman and Board of Directors for their valuable counsel and guidance. I am fortunate to lead such an amazing team and thank each one of them for their efforts in delivering the results set out in this Report. I also take this opportunity to thank all our farmers, distributors, retailers and the rest of the partners in our value chain for their continued support and look forward to working with them in the coming year.



NEDAL SALEM

Managing Director and CEO

ABOUT THE COMPANY

BUSINESS OVERVIEW

Over the last century, Ceylon Tobacco Company PLC (the Company) has played an important role in supporting Sri Lanka's socio-economic progress, through significant tax contributions, value injections to the local economy through the supply chain, development of world-class talent and the propagation of socially and environmentally sustainable business practices. The Company has consistently maintained its position as the largest tax contributor to government revenue, which amounted to Rs. 120.4 billion (or 6% of total tax revenue) in 2019. Its value injection to the rural economy was Rs. 12.2 billion during the year, through which we supported the livelihoods of 20,000 tobacco farmers. CTC is also one of the most valuable listed companies in the Colombo Stock Exchange, with a Market Capitalisation of Rs. 206 billion as at end-December 2019.

Our multi-stakeholder approach to value creation is aimed towards consistently increasing our contribution to government revenue and developing capabilities across our value chain and communities while generating sustainable shareholder returns.



Operational Excellence

Having embraced the principles of operational excellence and efficiency, the Company has over the years focused on building a lean and agile operation. This has afforded it significant cost advantages through enhanced equipment efficiency and productivity improvements.



World-Class Employee Practices

We are keen to emulate global best practices in people management across our organisation, thereby contributing towards the development of Sri Lanka's talent pool. The Company is considered one of Sri Lanka's best employers and offers a unique employee value proposition to its employees, centred on development, diversity, global opportunities and a high-level of engagement.



Empowering Consumers Through Choice

As Sri Lanka's only legal manufacturer of cigarettes and a subsidiary of the British American Tobacco Group we have developed a deep understanding of consumer behaviour, offering a world-class product portfolio, which caters to diverse preferences.



A Sustainable Value Chain

We are cognisant of our added responsibility to maintain the highest standards of corporate conduct and take pride in the sustainable and responsible way our operations are run. This includes:

- Over 15 years of community engagement through our flagship CSI initiative SADP, which has to date benefitted over 76,300 deserving individuals;
- Nurturing mutually beneficial relationships with tobacco farmers, distributors and retailers;
- Concerted efforts to reduce our environmental footprint across our manufacturing and value chain operations; and
- Propagation of sustainable agricultural practices.

OUR PRODUCTS

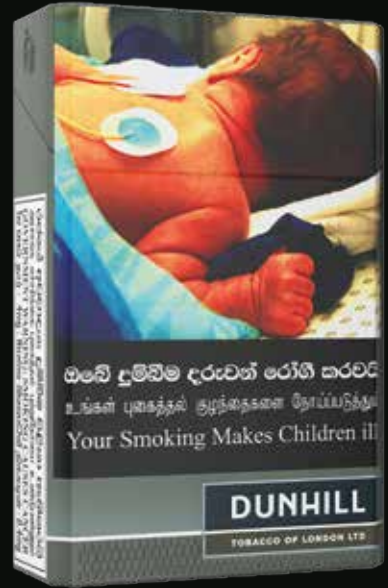
DUNHILL SWITCH



DUNHILL BLUE



DUNHILL GREY



JOHN PLAYER NAVY CUT



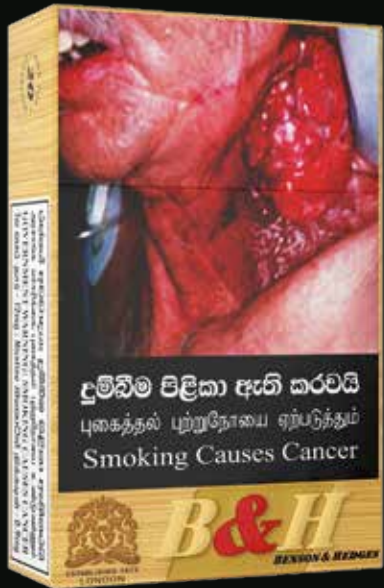
(JPNC) 20's Pack

JOHN PLAYER NAVY CUT



(JPNC) 5's Pack

BENSON & HEDGES (B&H)



JOHN PLAYER GOLD LEAF



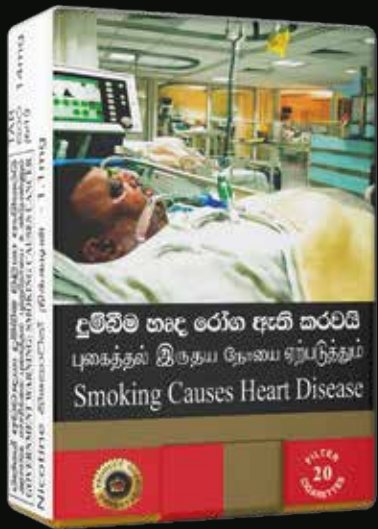
(JPGL) 20's Pack

JOHN PLAYER GOLD LEAF

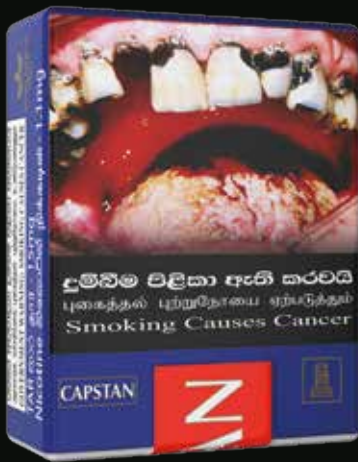


(JPGL) 12's Pack

BRISTOL



CAPSTAN



MARKETING



HIGHLIGHTS OF 2019



Numerous brand equity initiatives



Volume declined by 17% mainly due to a 25% drop in JPGL volume



Dunhill continued to grow in volume



Strengthened relationships with retailers and distributors

STAKEHOLDER VALUE CREATION

Diverse product portfolio offered to adult consumers

Capacity building for distributor staff

Vendor carts provided to over 250 economically challenged individuals

COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS





Created shared value for

58,700+

traders and retailers across the country.

Infused

Rs. 5Bn+

into local economy via trade.

“OUR CONSUMERS ARE AT THE CORE OF EVERYTHING WE DO AND OUR SUCCESS IS UNDERPINNED BY ADDRESSING THEIR PREFERENCES; OFFERING THEM A CHOICE OF WORLD-CLASS PRODUCTS. AT THE SAME TIME BUILDING AND NURTURING MUTUALLY BENEFICIAL RELATIONSHIPS WITH OUR DISTRIBUTORS AND RETAILERS IS KEY TO DELIVERING OUR STRATEGY OF CREATING SHARED VALUE ACROSS OUR VALUE CHAIN.”

World-class Portfolio of Brands






The Company offers a strong portfolio of brands, which caters to diverse consumer preferences. While empowering adult consumers through choice, this has also allowed the Company to demonstrate a degree of resilience to ad hoc excise-led price increases. In 2019, sales volumes declined by approximately 17% reflecting subdued consumer sentiments and unfavourable market conditions post Easter Sunday attacks coupled with the implementation of two excise-led price increases, which saw average price of legal cigarettes increase by 17%.

Our strategy focused primarily on enhancing brand recognition and positive recall through tactical equity building strategies. These were supported by consumer relevant product introductions. Increased product availability through proactive engagement with our trade networks amplified the effects of these initiatives. Key highlights for the year included the launch of a John Player Gold Leaf (JPGL) Limited Edition Capsule, “JPGL Cool” and a packaging upgrade in the Dunhill range, to offer an international experience in line with global standards. The increase in prices during the year resulted in a 25% decline in the volume of our main brand, JPGL. Despite the challenging market

conditions, Dunhill achieved a significant growth, which is a reflection on our brand development efforts to cater to adult consumer needs. John Player Navy Cut (JPNC) and Capstan also recorded volume growth during the year with a certain segment of the market shifting to more affordable legal products in view of the arbitrary excise-led price increases and challenging economic conditions.

CTC benefits from the world-class standards of its parent organisation and all our products are manufactured in line with BAT’s stringent quality requirements and industry leading product standards.

MARKETING

				
<p>Our premium offering, Dunhill, is synonymous with innovation, quality and novel experience.</p>	<p>CTC's leading brand, JPGL, caters to the aspirational premium segment of the market and has been present in Sri Lanka for over 55 years.</p>	<p>These are our value for money brands.</p>		<p>Capstan caters to the low-end segment and is the only non-filtered cigarette in the market.</p>

Distribution and Retail

Our products are sold through an island-wide network of 13 distributors, 58,775 retailers and 658 modern trade outlets. We seek to consistently enhance the efficiency and reliability of our distribution network to ensure that we offer products to adult consumers who make an informed choice to purchase, and where and when they want to purchase and consume them.

Key areas of focus during the year included strengthening engagement with our channel partners, driving improved distribution efficiencies across the network and strengthening distributor standards. We enhanced distribution efficiency through automating the control and monitoring framework of 42 active sub-dealers, thereby strengthening monitoring of over 4,200 outlets.

Distributor value addition during the year focused on upskilling distributor staff and strengthening operating standards; accordingly, we introduced the BAT global standards on warehousing and enhanced the value proposition to distributors by broadening compensation schemes and providing training opportunities.

In addition to the specific initiatives listed here, we continued to build our relationships with our distributors and retailers facilitated by multiple platforms including the Customer Voice Survey, distributor awards and recognition and ongoing communication on product and brand awareness programmes.

“During the year we launched a unique initiative to provide vendor carts to over 250 socially and economically vulnerable individuals in rural communities. The project has facilitated job creation and economic empowerment.”



“I have been through many hardships in life trying to make ends meet. I used to sell goods by the roadside on a plank of wood placed on the ground. CTC helped me with a vendor cart and today I am the proud owner of this cart. I am happy to be able to expand my business and truly grateful to the Company for this opportunity.”

Rani Fernandopulle
Colombo


100
YEARS

A LEGACY OF
CREATING SHARED
VALUE FOR OUR
BUSINESS PARTNERS...

A middle-aged man with a mustache, wearing a white polo shirt with a logo, stands in a store aisle. Behind him are shelves stocked with various products, including boxes of 'Navy Cut' and 'Pineapple Chewed'. A yellow speech bubble is overlaid on the left side of the image, containing a testimonial. The background features a blue and white patterned wall.

"Over the years CTC has supported me continuously to grow my business. When my outlet was damaged by the Tsunami in 2004, the Company came forward to help me rebuild and recover my livelihood. They stood by me when no one else did. CTC has been a true partner in my success."

K. A. JAYAWICKAMA
MATARA



"At CTC you are encouraged to dream big. The Company empowers you to make tough, bold decisions while staying accountable. The safe environment it has created, allows us to make mistakes, learn from them and grow. This is what makes CTC a great place to work!"

LASITHA WALPOLA
TRADE MARKETING EXECUTIVE

OPERATIONS



HIGHLIGHTS OF 2019



100% of our tobacco leaf requirement sourced locally



Propagation of good agricultural practices to tobacco farmers



100% compliance to BAT's Environment, Health and Safety standards

STAKEHOLDER VALUE CREATION

Rs. 1.4 Bn

Infused into the rural economy

15

Factory employees received overseas training

Ongoing investment in health and safety across our supply chain

COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS





Fully
integrated
**Crop to
Consumer**
supply chain.

Improvements
in equipment
efficiency, quality
and environmental
footprint.



“WE ARE COMMITTED TO INVESTING IN NEW WAYS OF WORKING IN OUR DRIVE TOWARDS A MORE EFFECTIVE AND INTEGRATED ORGANISATION, WHICH ENSURES A RESPONSIVE SUPPLY CHAIN, COST EFFICIENCIES AND IMPROVEMENTS IN OUR ENVIRONMENTAL FOOTPRINT.”

Leaf

The Company offers a holistic value proposition, which includes guaranteed buybacks, capacity building and propagation of good agricultural practices to over 20,000 tobacco farmers across the island. Despite adverse climatic conditions, the Company sourced 100% of its tobacco leaf requirement locally, thereby injecting Rs. 1.4 billion to the rural economy during the year.

Given increasingly intensifying implications of climate change and limitations in land availability, we have focused on driving good agricultural practices among tobacco farmers and significant progress was made on this front during the year, with considerable improvements in yields, thereby affording more land and resources for farmers to cultivate alternative crops. The Company's

contribution in propagating good agricultural practices among tobacco farmers have also supported in improving yields in other crops, thereby driving increased income generation for rural farming communities. During the year, we also provided overseas training for 30 tobacco farmers, encouraging them to emulate global best practices across local agricultural supply chains. In 2019, the Company further encouraged tobacco farmers to grow alternative crops by distributing vegetable seeds worth over Rs. 6.5 million.

Shortage of labour is a key issue faced across agricultural supply chains and we further expanded the Loose Leaf Barn concept for tobacco curing, which reduces the labour requirement by more than 30%. This technology leads to substantial energy savings and emission reductions while significantly trimming the time spent on curing.



Skill development of our internal leaf team continues to be a key priority and during the year we offered a range of training opportunities including overseas exposure to our leaf extension officers. The Company continued to offer enhanced career progression paths resulting in nearly 20% of the leaf cadre promotions during the year.


100
YEARS

DEDICATED TO
CREATING SUSTAINABLE
LIVELIHOODS...



"I have been cultivating tobacco with CTC for more than 25 years. During this time our relationship has strengthened. As farmers we appreciate the efforts made by the Company to provide us with the resources, knowledge and training required to improve our productivity and yields. Over the years, with the guidance of the Company I have been successful in increasing my income."

E. M. SENAVIRATHNA BANDA
TOBACCO FARMER - UDUDUMBARA



"CTC offers us farmers a guaranteed and fair price for our crop at the start of the season. Unlike other crops, we do not have to worry about looking for buyers nor are we at the mercy of "middle-men".

D.M. SEELAWATHI KUMARIHAMI
TOBACCO FARMER - UDUDUMBARA



"At CTC,
we have the opportunity to
work in a dynamic, challenging,
and empowering environment. We
are encouraged to seek out new
ideas and to think outside the box
to shape the future instead of
reacting to it."

RASIKA ABEYSEKARA
LEAF AREA MANAGER

OPERATIONS



Manufacturing

The Company continued to make investments in driving improvements across its technology and machine footprint. Key areas of focus during the year included enhancing capability and capacity, upskilling factory floor employees and driving improvements in our environmental footprint. During the year we offered training opportunities in Europe with original equipment manufacturers for 15 factory floor employees, thereby broadening their exposure beyond the South Asian region and driving considerable improvements in technical skills.

The Company also progressed further on its Integrated Work Systems (IWS) journey, with the long-term objective of transforming its manufacturing processes to maximise equipment efficiency. CTC has consistently recorded improvements in factory efficiency and productivity and continues to be one of the Group's best performing factories.

Environment, Health and Safety

Providing a safe work environment for all our employees is a key priority for the Company and all health and safety aspects are governed by well-defined procedures in line with the Group's integrated EHS (Environment, Health and Safety) guidelines. During the year, we further strengthened our EHS management system and implemented a focussed work stream to achieve compliance to the Group's best practices. The Company also continues with its ongoing health and safety initiatives, PULSAR and NEARMISS, which have led to sustained reductions in safety hazards.

In 2019, the Company further invested in health and safety trainings, particularly in the following areas:

- Training programmes for contractors performing hazardous tasks and establishment of work at height rescue teams in both plants.

- Setting up teams of first aid trained staff across operational sites.
- 100% coverage of defensive driver training for all field staff.

Our approach to managing our environmental footprint is governed by the Group's comprehensive EHS management system that is based on international best practices including ISO 14001. The environmental policy is applicable to all our operations and its implementation falls under the purview of the EHS Steering Committee. Environmental indicators are monitored and reported on an ongoing basis, which in turn supports the achievement of the Group's stretched environmental targets. These targets include:


Carbon neutral by 2030; Reduce our Scopes 1 and 2 CO₂e emissions by 30% by 2025; Source 30% of our direct energy from renewable sources by 2025; Reduce the total amount of water withdrawn by 35% and increase water recycling to 15% by 2025; Reduce waste sent to landfill by 40% by 2025 and recycle at least 95% of our total waste each year; Eliminate the use of unsustainable wood sources by our contracted farmers for curing fuels; Eliminate unnecessary single-use plastic packaging by 2025; 100% of plastic packaging to be reusable, recyclable or compostable by 2025; and 30% average recycled content across all plastic packaging by 2025.

During the year the Company's energy, water and emission intensities increased against the previous year. Having identified the root causes for these variances the Company has developed comprehensive plans to reduce its environmental footprint from 2020 onwards.



"Last year our Company sent me for a training at BAT's Singapore factory. The experience and exposure I received during this time has certainly given me a new perspective. This allowed me to learn some of the best practices on waste reduction through continuous improvements, driven with a zero-loss mindset. Experiences such as this help us to develop our skill sets and drive continuous improvements in our day-to-day work"

DHANANJAYA DASSANYAKA
TECHNICIAN

A man with a goatee and earplugs, wearing a white button-down shirt, is smiling and looking towards the camera. He is standing in a factory or industrial setting. In the background, there are various pieces of machinery and equipment. To the left, a hand is visible adjusting a knob on a control panel with several buttons and switches. A large yellow speech bubble with a blue border is overlaid on the image, containing text.

**"Employee
Health and Safety is a priority at
CTC. It is everyone's responsibility to
drive safety improvements and we have
been empowered to do so using simple
yet effective methods such as PULSAR
and Near Miss Reporting. As a team
we are committed to this cause."**

ESHAN WARAGODA
JUNIOR TECHNICIAN



"I attended a technical training course at the BAT Global Operations Skills Development Centre in South Africa earlier this year. It was one of the greatest learning experiences, which allowed me to study and understand state of the art technologies. The Company continues to invest in our training and development, and experiences, such as this gives me not just the skills I need but also the confidence to contribute positively to factory footprint enhancements."

NISHANTHA KUMARA
TECHNICAL OFFICER

HUMAN RESOURCES



HIGHLIGHTS OF 2019



Enhanced employee engagement



Launch of the diversity initiative - 'Women of Worth'

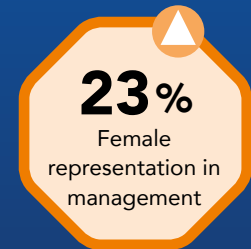


Overseas training opportunities for 39 employees



04 employees seconded for foreign exposure

STAKEHOLDER VALUE CREATION



COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS





270
Employees.

38%

Female
representation in the
Extended Leadership
Team.

“OUR EMPLOYEES ARE THE KEY TO OUR SUCCESS AND WE CONTINUE TO FOCUS ON ATTRACTING AND RETAINING THE BEST, BY INVESTING IN TALENT, STRENGTHENING OUR CULTURE AND VALUES, AND MAINTAINING A FULFILLING AND RESPONSIBLE WORK ENVIRONMENT.”

Best in class talent management practices and a unique employee value proposition makes CTC one of Sri Lanka’s most preferred employers. The Company’s people agenda is focused on attracting and retaining the best employees, developing talent from within and investing in and supporting high-performing leaders. In 2019, key areas of focus included nurturing an engaging work-culture, promoting diversity and leadership development.

that will help us to create a future-fit organisation. We believe the ethos empowers our people, fosters a vibrant and rewarding work place and promotes sustainable long-term value. We are proud to note that our 270 strong team continues to embody these values as they stay resilient in the face of external challenges.

Steering the Behaviours of Our Business and Our People

The BAT Ethos is an evolution of our ‘Guiding Principles’ – a blue print of behaviours across the entire Group. This ethos is the key driver that will enable us to deliver our Win-Win-Win strategy to create ‘A Better Tomorrow’. It is about being bold, fast, empowered, responsible and diverse, values




Engagement

Numerous formal and informal engagement platforms aim to nurture an open culture, facilitating communication across all levels of the organisation. Key engagement mechanisms in 2019 included “Tribal Talk”- quarterly business updates, regular Townhall Sessions, meetings with union representatives, employee satisfaction surveys, employee participation at Line of Sight 2020 as well as a year-round calendar of sports and cultural events. We also continue to direct considerable investments towards creating a healthy workforce through numerous wellness initiatives.

100


YEARS

A STORY OF
FOSTERING THE
PEOPLE'S GROWTH...

A portrait of Zahrah Cader, a woman with long dark hair, wearing a white button-down shirt, smiling and standing with her arms crossed. The background is a plain, light grey color.

"The
BAT Ethos
empowers me to make
bold decisions in my day-to-day
work. I'm trusted to act responsibly
and this drives me to make the
right decisions, fast. My CTC family
celebrates my individuality because
we believe in bringing our
difference. Our diversity unites
us and helps us to bring out
the best in each
other."

ZAHRAH CADER
REGULATORY AFFAIRS COUNSEL

A man with a mustache and goatee, wearing a white button-down shirt, is smiling and looking towards the camera. He is holding a stack of papers in his hands. He is wearing a silver watch on his left wrist. The background is a blurred warehouse or industrial setting with wooden pallets and shelves.

"CTC encourages employees to deliver outstanding results, responsibly, whilst acting with integrity and maintaining the highest standards of business ethics at all times. It is the cornerstone of how we operate."

NISAL WEERASINGHE
ASST. MANAGER - PROCUREMENT



"Since joining CTC just over two years ago as a fresh graduate, I've had various development opportunities and have been able to learn from the best. What I love about CTC is the fast-paced international environment that is constantly encouraging employees to challenge themselves, collaborate and drive for solutions."

LAKSHITHA RAJENDRAN
GLTP MANAGER

HUMAN RESOURCES



Training and Development:

Nurturing strong talent pipelines through developing talent from within is part of our strategy and we offer a wide portfolio of functional and leadership programmes to accelerate the development of our next generation of leaders. Key training programmes held in 2019 are listed below;

- ⦿ **Leading Teams:** Junior and Middle level Managers trained on critical team leadership skills, through coaching sessions focused on managing performance, developing high performing teams and managing performance through change.
- ⦿ **Leaf Ambassadorship Training:** A unique learning experience developed in-house for our leaf employees, focusing on hard and soft skill development as well as experiential learning.
- ⦿ **Career Code:** Organisation wide training to enhance the understanding employees have around the Talent Management Processes and Reward Principles.
- ⦿ **Corporate Induction:** A 5-day session providing an overview of the Company and its operations to the new employees.



Diversity and Inclusion:

'Women of Worth' Initiative

A unique diversity initiative, 'Women of Worth' (WOW) was launched by the Company in August 2019 with the objective of empowering female leaders. WOW hopes to build a platform to act as ambassadors to attract, retain and further strengthen the Company's talent pipeline while also contributing to the community through CSI initiatives. Programmes conducted during the year included:

- ⦿ Mental Health Awareness Session for female staff to commemorate World Mental Health Day
- ⦿ Free clinic for third party female support staff specialising in women's needs: sexual and reproductive health, cancer screening and fertility
- ⦿ Household Safety Training for female staff and a session with the Group EHS Manager
- ⦿ Networking and membership in corporate women's forums

Indicator	2019
Female Representation	
Management Cadre	23%
Executive Cadre	19%
Leadership Team	17%
Extended Leadership Team	38%



"Diversity is a key element of how our business operates and the Company continuously looks at ways to enhance diversity, be it gender or otherwise. 'Women of Worth' (WOW) is one of the few initiatives undertaken by CTC and I had the pleasure of leading this platform, in 2019. Together we drove countless projects that empowered the female workforce while acting as a support mechanism for all women in the workplace."

NILUSHI KUMARADAS
NEW PRODUCT INTRODUCTION MANAGER



"I started my career at CTC soon after leaving school as a Field Officer. I have worked around the entire country during my career and this created opportunities for me to engage with different people, to learn and grow. The training and exposure as well as the values and standards that were embedded in me helped me to grow not only professionally but in my personal life as well. I enjoy my job and consider myself a happy member of the CTC family."

DHAMMIKA WERAGAMA
LEAF EXECUTIVE

HUMAN RESOURCES

Union Committee - Colombo



Union Committee - Kandy



LEGAL AND EXTERNAL AFFAIRS



HIGHLIGHTS OF 2019



Sri Lanka's single largest tax contributor



Compliant with all applicable tobacco laws and regulations



Ongoing investment in our flagship CSI initiative - SADP



Ongoing and proactive engagement with stakeholders

STAKEHOLDER VALUE CREATION

Rs. 120.4 Bn

Tax contribution to the Government

Rs. 550+ Mn

Investment in SADP in the past 10 years

76,300+

Livelihoods supported via SADP

COMMITMENT TO SUSTAINABLE DEVELOPMENT GOALS





100%
Compliance
with Standards of
Business Conduct
(SOBC).

Zero
Deviations
from the NATA act
and other applicable
regulations.

“GIVEN THE HEALTH RISKS ASSOCIATED WITH OUR PRODUCTS, IT IS VITAL THAT WE SATISFY ADULT CONSUMER NEEDS IN A RESPONSIBLE MANNER, WHILE EFFECTIVELY COMPLYING WITH ALL REGULATIONS ON HOW OUR PRODUCTS SHOULD BE MANUFACTURED AND MARKETED.”

Approach to Corporate Behaviour

Our approach to responsible corporate behaviour is clearly articulated through BAT's Ethos, Standards of Business Conduct and a suite of well-established policies, procedures and standards. Given the controversial nature of the industry we operate in, we are cognisant of the added responsibility placed on us to operate to the highest standards of corporate conduct and transparency.

Engaging Stakeholders

The Company maintains ongoing proactive engagement with its diverse stakeholders, enabling effective and timely identification of their needs and concerns. Engagement is facilitated through a range of formal platforms and their legitimate concerns are given due consideration when formulating strategy.



LEGAL AND EXTERNAL AFFAIRS

Tax Contributions

CTC maintains its position as the country's largest individual tax contributor, injecting Rs. 120.4 billion in taxes in 2019, which amounted to 6% of Government's tax revenue. We maintain an open and transparent relationship with tax authorities and are deeply committed towards contributing to the country's development through taxes as part of our Win-Win-Win strategy.






Corporate Social Investments

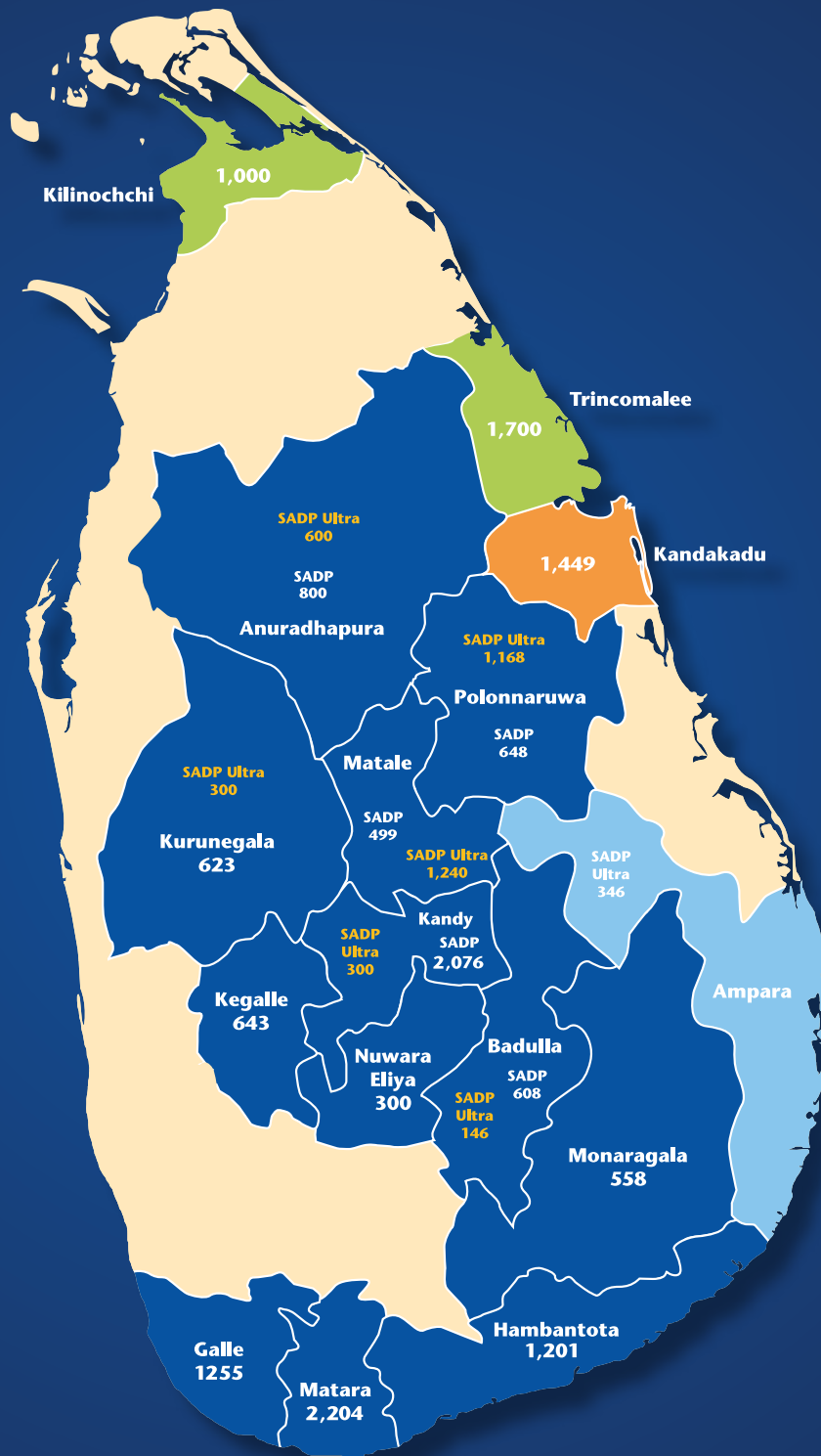
The Company's flagship CSI initiative, Sustainable Agricultural Development Programme (SADP) is designed to uplift communities and develop a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment. Since its commencement 15 years ago, the programme has directly benefitted over 76,300 economically underprivileged individuals of over 19,600 families across 16 districts. The programme is structured in a manner that allows the Company to identify individuals living below the poverty line in selected villages and provide them agricultural and other inputs to achieve self-sufficiency through home gardening and animal husbandry.



“WE HAVE A LONG AND PROUD HISTORY OF SUPPORTING RURAL AGRICULTURE AND WE ARE COMMITTED TO LEVERAGING OUR GLOBAL INSIGHTS TO DRIVE COMMUNITY EMPOWERMENT ACROSS THE ISLAND THROUGH OUR UNIQUE CSI INITIATIVE, THE SUSTAINABLE AGRICULTURAL DEVELOPMENT PROGRAMME (SADP).”

Over the years SADP has positively impacted 11,415 families while variations of the programme have been implemented based on specific needs of the respective communities. Details of these variants are given below :

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



Number of SADP Families By Project

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

SADP Families by District

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

SADP Plus

Trincomalee	1,700
Kilinochchi	1,000

SADP Lite

Kandakadu	1,449
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SADP Ultra

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

100


YEARS

A PROVEN TRACK
RECORD OF
UPLIFTING
COMMUNITIES...



"We were struggling to put food on the table before SADP but now we are able to grow our own fruits and vegetables using organic fertiliser. We now have nutritious meals thanks to this programme. Recently they gave us goats and we can now obtain milk as well."

A.D. SUSANTHA KUMARA
SADP HOME GARDENER

A woman with dark hair, wearing a pink sleeveless vest over a dark patterned top, stands in a lush garden. She is holding a large, round basket filled with fresh produce, including green okra, green beans, several brown eggs, leafy greens, and a white vegetable. The background is filled with tall, leafy plants, likely cucumbers, growing on wooden trellises. The scene is brightly lit, suggesting a sunny day.

"SADP is now a part of our lives. We derive great pleasure from our home garden. I have now increased my income by around Rs. 10,000 a month. This programme has truly changed our lives."

A. V. SHANTHI
SADP HOME GARDENER

100
YEARS

DRIVEN BY A
CULTURE OF
LEADERSHIP AND
TRANSFORMATION...

BOARD OF DIRECTORS



WILLIAM PEGEL

Chairman



AMUN MUSTAFIZ

Finance Director



NEDAL SALEM

Managing Director and CEO



ANIL TITTAWELLA

Independent Non-Executive Director



USMAN ZAHUR

Non-Executive Director



YUDHISHTRAN KANAGASABAI

Independent Non-Executive Director

BOARD OF DIRECTORS

WILLIAM PEGEL

Chairman

Chairman since August 2019

Current appointments

Head of Finance, Pakistan Tobacco Company Limited.

Past appointments

Mr. William Pegel has been the Finance Director in various end markets including New Zealand, Papua New Guinea, Ghana, Bangladesh and Pakistan. He has also held various senior finance roles at BAT Australia and BAT South Africa since 1996. He was an integral member of the Australasian Finance Leadership Team and Supply Chain Leadership Team, displaying strong leadership and business acumen.

Skills and experience

Mr. Pegel has over 21 years of experience in various BAT companies and successfully performed the role of Finance Director in various end markets. He is a Certified Chartered Accountant from the South African Institute of Chartered Accountancy.

NEDAL SALEM

Managing Director and CEO

MD and CEO and Chairman of Nomination Committee since May 2019

Current appointments

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

Past appointments

Mr. Nedal Salem joined British American Tobacco (BAT) in 1998 as the Country Manager Jordan. Prior to his appointment as MD and CEO, he was the Head of Brand Marketing in BAT Indonesia from 2017.

Skills and experience

Over the last 20 years, Mr. Salem has built high performing teams through his inspiring and inclusive leadership styles. He has contributed towards the growth of BAT's global drive brands and delivered a strong financial performance in various BAT companies. He holds a Bachelor of Arts (BA) in International Business from The George Washington University.

AMUN MUSTAFIZ

Finance Director

Finance Director since December 2018

Current appointments

N/A

Past appointments

Ms. Amun Mustafiz has acted in the capacity of Commercial Finance Controller – Operations, BAT Bangladesh and Senior Corporate Finance Manager, BAT Japan.

Skills and experience

Ms. Mustafiz joined British American Tobacco-Bangladesh in 2005, where she held various positions in the areas of Statutory, Planning and Reporting, Audit, Compliance and Commercial Finance. She has experience in working across all areas of finance in several diverse and complex markets, including BAT Japan. She has also shaped key business strategies while nurturing high-performance cultures and maintaining robust control environments.

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

USMAN ZAHUR

Independent Non-Executive Director

Independent Non-Executive Director and member of Audit Committee, Related Party Transaction Review Committee and Board Compensation and Remuneration Committee since May 2019.

Current appointments

He was appointed as the Managing Director and CEO of Pakistan Tobacco Company Limited in January 2020.

Past appointments

In 2012, Mr. Usman Zahur was appointed as the Head of Marketing in British American Tobacco, Bangladesh. In 2015, he moved to British American Tobacco-UK and was instrumental in developing the "KENT" brand. Mr. Zahur was later appointed as the Area Marketing Director for South Asia Cluster and Deputy Managing Director in 2017.

Skills and experience

Mr. Zahur joined Pakistan Tobacco Company Limited 21 years ago and since then he held various senior Marketing positions in the areas of brands, trade and strategic planning and insights across different markets. He played a key role in building and deploying the KENT Next Generation Product Agenda in Romania and Japan.

ANIL TITAWELLA

Independent Non-Executive Director

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

Current appointments

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

Past appointments

Mr. Anil Tittawella was a member of the Committee on Company Law Reform of the Bar Association of Sri Lanka (1995-1996), a Member of Sri Lanka Swedish joint legal team to formulate the new Arbitration Act of Sri Lanka (1994-1997) and also a Legal Consultant to the Airport and Civil Aviation Authority of Sri Lanka (1994-1997). Further, Mr. Tittawella was the Founding Member of the Institute of Commercial Law and Practice in Sri Lanka (1995).

He was a Member of the Ceylon Chamber of Commerce Committee on Company Reforms (1993), a Commission Member of the Securities and Exchange Commission of Sri Lanka (2000-2002) and a Member of the Insurance Board of Sri Lanka (2001-2002).

Skills and experience

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

YUDHISHTRAN KANAGASABAI

Independent Non-Executive Director

Independent Non- Executive Director, Chairperson of the Audit Committee, Related Party Transaction Review Committee and member of Board Remuneration and Compensation Committee, Corporate Social Investment Committee and Nomination Committee since February 2018.

Current appointments

He was appointed as an Independent Non-Executive Director and member of the Board Audit Committee of Cargills Ceylon PLC. He is also a Non-Executive Director and a member of the Board Audit Committee of Cargills Food Company Limited and Cargills Bank Limited. Mr. Kanagasabai is a Non-Executive, Independent Director and Chairperson of the Audit Committee of Millennium IT (Pvt) Limited, Non-Executive, Independent Director and member of the Board Audit Committee of Hunters Limited PLC, Non-Executive Director and member of the Board Audit Committee of Lanka Canneries Limited, Non-Executive Independent Director of EAP Holdings Limited and a Non-Executive, Independent Director and Chairman of the Board Audit Committee of Eswaran Brothers Exports (Pvt) Limited.

Past appointments

Mr. Kanagasabai was a Senior Partner/Chief Executive Officer of PricewaterhouseCoopers in 2006. He was also a Non-Executive Director and Chairman of the Board Audit Committee of Union Bank PLC (A Texas Pacific Group Subsidiary) and the Commissioner of the Insurance Regulatory Commission of Sri Lanka.

Skills and experience

Mr. Kanagasabai served PricewaterhouseCoopers since its inception in 1981 and has held progressively responsible positions before being appointed as Senior Partner/Chief Executive Officer in 2006, a position he retired from in 2017. He elevated the profile of both the Sri Lankan and the Maldives practices of the firm to consistently provide quality solutions to clients within appropriate standards and applicable best practices. Mr. Kanagasabai has extensive knowledge of current economic, social and regulatory issues. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka.

EXECUTIVE COMMITTEE



AMUN MUSTAFIZ

Finance Director

NEDAL SALEM

Managing Director and CEO

KAVINDA NANAYAKKARA

Head of Marketing



ALEXANDER ROMERO

Head of Operations

SUDESH PETER

Head of Legal and External Affairs

ARJUNA RAJAWASAN

Head of Human Resources

CORPORATE GOVERNANCE

“AT CTC, ROBUST CORPORATE GOVERNANCE PRACTICES UNDERPIN THE CREATION OF SUSTAINABLE, LONG-TERM VALUE. OUR COMMITMENT TO GOOD CORPORATE BEHAVIOUR IS REFLECTED IN OUR STANDARDS OF BUSINESS CONDUCT, WHICH ENSURE THAT BUSINESS OBJECTIVES ARE MET IN A TRANSPARENT AND ACCOUNTABLE MANNER.”

Governance Framework

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

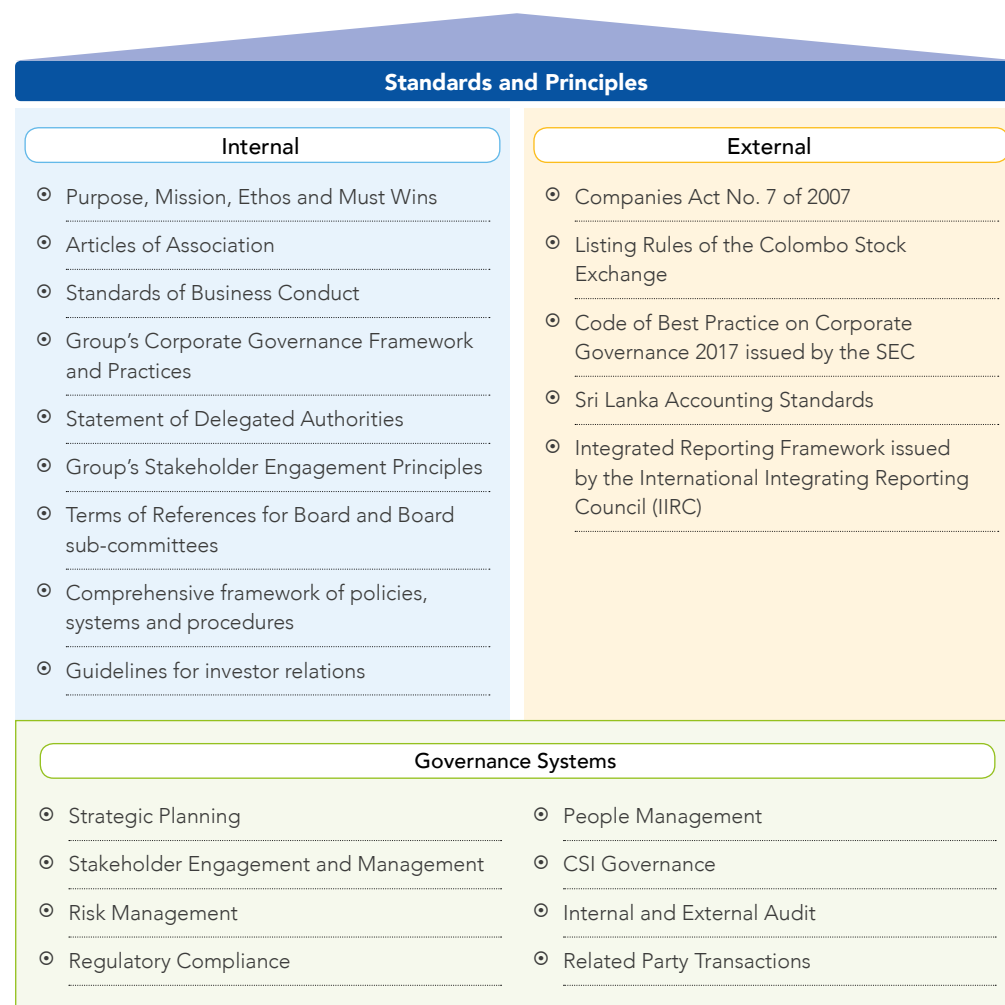
Governance Structure

As the apex governing body, the Board of Directors serves as the custodian of the Company's corporate governance. The Company's clearly defined governance structure (graphically illustrated on page 63) promotes judicious empowerment and accountability. Board sub-committees have been set up with specific responsibilities to assist the Board in discharging its duties. The composition and key responsibilities of the Board sub-committees are listed on page 63 -64.

Policy Framework

CTC has adopted BAT's compliance programme, 'Delivery with Integrity', which focuses on strengthening and driving a globally consistent approach to compliance across the Group. Over the years the Company has strengthened procedures related to key compliance areas, which include Anti Bribery and Anti Corruption (ABAC), Anti-Illicit Trade, International Sanctions, Data Protection and Records

The Company's governance framework is founded on the following external and internal instruments:



Management, in its efforts to ensure its employees uphold the Standards of Business Conduct of the Group (as adopted by CTC) in making their judgements, decisions, actions and behaviours at work.

Policy highlights/changes during the year included,

- Implementation of the new Investor Relations Policy, which clearly sets out the guidelines for proactive and transparent shareholder relations
- Supply Chain Compliance Procedure, which enables us to strengthen our supply chain controls against illicit trade
- Adoption of the Group's updated Investigation Policy
- Update of the Statement of Local Delegated Authorities in line with the revised Group and Regional Delegated Authorities
- Regular revisions to the internal guidelines and procedures specific to individual functions

All employees of CTC were educated on all significant policies through a policy roadshow which was conducted during the year.

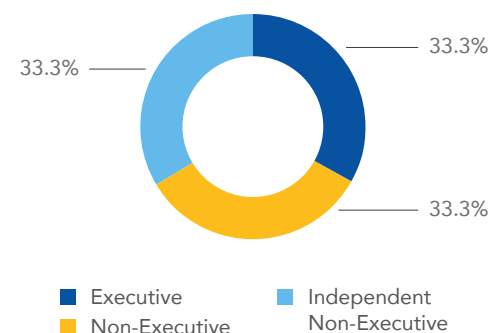
Board of Directors

Board Composition

CTC's Board consists of four Non-Executive Directors (including the Chairman) and two Executive Directors. The BAT Group is represented by two Directors, who hold no executive functions in CTC. The composition of the Board, the balance between Executive and Non-Executive representation and the calibre of Non-Executive Directors ensure that power is appropriately balanced within the Board. The overall effectiveness of the Board is enhanced by the diversity and breadth of perspectives of its members, who combine professional and academic skills and experience both locally and internationally. Collectively, the Board also has sufficient financial acumen and knowledge with three Directors holding membership in professional accountancy bodies.

Changes to the Board in 2019 include the resignation of one Director, the demise of one Director and the retirement of the Chairman, who completed his six-year tenure as a Non-Executive Director. During the year Nedal Salem, Usman Zahur and William Pegel were appointed to the Board. Please refer to page 58 and 59 for full profile.

Board Composition

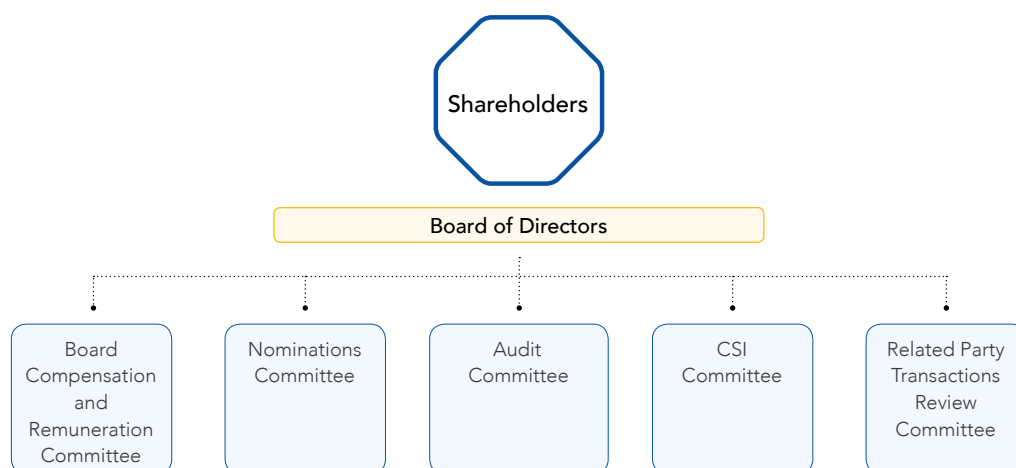


*CTC maintains 17% female representation on the Board.

Board Responsibility

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

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



CORPORATE GOVERNANCE

Board Sub-Committees

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

Name	Composition	Mandate
Audit Committee	Consists of two Independent Non-Executive Directors and one Non-Executive Director representing the BAT Group. The Committee is chaired by an Independent Non-Executive Director who is member of a professional accounting body with adequate experience.	Support the Board and the Group's relevant Audit Committee in ensuring the integrity of financial statements, management of business risks, internal control and compliance, and conduct of business in accordance with the SOBC.
Board Compensation and Remuneration Committee	Consists of two Independent Non-Executive Directors and one Non-Executive Director. One Independent Non-Executive Director functions as the Chairman of the Committee. The Committee should have a minimum of three Non-Executive Directors of whom the majority should be independent. The Chairperson should be a Non-Executive Independent Director.	Responsible for determining the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors, the Executive Committee and the Management staff of the Company.
Nominations Committee	Consists of two Independent Non-Executive Directors and one Executive Director who acts as the Chairman of the Committee. Majority of the members of the Committee should be Non-Executive Directors and shall include at least one or one-third (whichever is higher) of Independent Non-Executive Directors.	Provide recommendations to the Board on suitable candidates for appointment to the Board ensuring that the Board has a diverse appropriate balance of skills and experience.
Related Party Transactions Review Committee	Consists of two Independent Non-Executive Directors and one Non-Executive Director. Chaired by an Independent Non-Executive Director.	Review and provide recommendations on related party transactions in line with the listing rules of Colombo Stock Exchange and Code of Best Practice issued by Securities and Exchange Commission of Sri Lanka on Related Party Transactions.
CSI Committee	Consists of two Independent Non-Executive Directors and two Executive Directors.	Ensure that the Company's CSI activities are in line with the Company's CSI strategy and are managed in a transparent and effective manner.

Board induction and training

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

- ⦿ One-to-one session with the Chairman
- ⦿ Sessions with department heads including presentations covering all functions which include Marketing, Supply Chain, Finance, Human Resource, and Legal and External Affairs
- ⦿ Market visits covering multiple channels including general trade, modern trade and hotels/restaurants
- ⦿ Site visit to factory and an area of tobacco cultivation, providing Directors with an opportunity to meet tobacco farmers and barn owners
- ⦿ Directors regularly receive briefings designed to update their skills and knowledge, for example in relation to the business and on legal and regulatory requirements. Directors also participate in relevant external training sessions, such as those organised by the Sri Lanka Institute of Directors

Board evaluation

The Board conducts a critical evaluation of its activities on an annual basis facilitated by the Company Secretary. Performance is reviewed against the recommended checklist of the Institute of Chartered Accountants of Sri Lanka whilst the effectiveness of the Audit Committee is also evaluated separately. The results of the overall evaluation are discussed with the Chairman and presented to the Board and each of the Committees in respect of its own performance.

Conflicts of interest

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

Board meetings

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

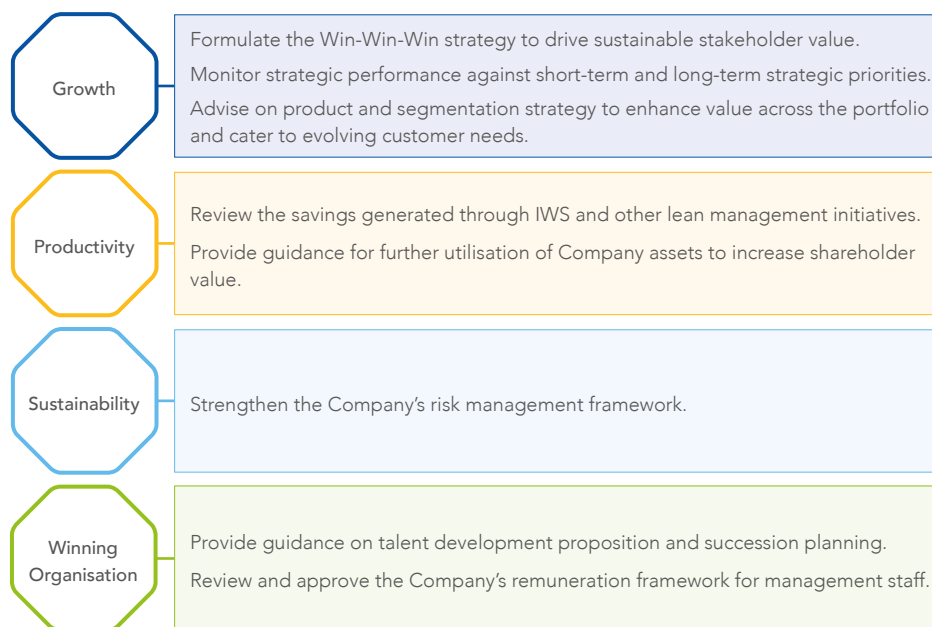
Attendance at Board and Board sub-committee meetings

Director	Board	Audit Committee	Board Compensation and Remuneration Committee	Nominations Committee ❖	CSI Committee	Related Party Transactions Committee
Mr. William Pegel (Appointed w.e.f August 2019)	1/2*					
Mr. Javed Iqbal (Retired w.e.f August 2019)	1/3					
Mr. Michael Koest (Resigned w.e.f May 2019)	2/2	0/2				
Mr. Nedal Salem (Appointed w.e.f May 2019)	2/2	2/2		*	1/1	
Mr. Usman Zahur (Appointed w.e.f May 2019)	1/2	1/2				1/2
Mr. Yudhishtan Kanagasabai	4/4	4/4*	1/1		1/1	4/4*
Mr. Anil Tittawella	4/4	4/4	1/1*		1/1*	4/4
Mr. Kenneth Allen (Demise March 2019)	1/1	1/1				
Ms. Amun Mustafiz	4/4	4/4			1/1	4/4

*Chairman of the Committee.

❖The Committee did not meet during the year.

Board contribution to value creation in 2019



CORPORATE GOVERNANCE

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

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

Board Remuneration

The Board Compensation and Remuneration Committee is responsible for determining the framework and policy on terms of engagement (including remuneration) of the Chairman, Executive Directors and Senior Management. The Terms of Reference of the Committee comply with the guidelines prescribed by the Code of Best Practices on Corporate Governance, CSE Listing Rules and Guidelines. The Company's Remuneration Policy is designed to provide a structured and balanced remuneration package, with the objective of attracting and retaining top talent. The Remuneration Policy covers performance based variable rewards (cash and share incentives, annual

bonus plans and long-term incentive plans); the core fixed elements (base salary and benefits); terms of service contracts and compensation payments.

Further details on the activities of the Board Compensation and Remuneration Committee are provided on page 83 of this Report. The aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Note 5 to the Financial Statements on page 110 of this Report.

Accountability and Audit

The Board is collectively responsible for presenting an accurate and balanced assessment of the Company's performance, financial position and prospects. CTC's Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer the pages 76 to 78), the Statement of Director's Responsibility (refer page 79), Directors' Statement on Internal Controls (refer page 75).

The Audit Committee supports the Board in ensuring the integrity of the Company's Financial Statements as well as internal controls and compliance. The Committee is chaired by an Independent Non-Executive Director, who is a member of a recognised professional accounting body with extensive experience in relevant areas. The Chairperson works closely with the Company's Finance Director in discharging her responsibilities (Please refer the pages 80 and 81). The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL and guidelines stipulated by the CSE.

The Audit Committee is responsible for reviewing and monitoring,

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

External Auditors and Auditor Independence

Policy: The Company's External Auditors are Messrs. KPMG and the principal/consolidator auditor has not engaged in any services which are in the restricted category as stipulated by the CSE for External Auditors. There is a formalised policy in place aimed at safeguarding and supporting the independence and objectivity of the Company's External Auditors. As prescribed in this policy External Auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity. The audit fees paid by the Company to its auditors are separately classified on page 111 of the Notes to the Financial Statements.

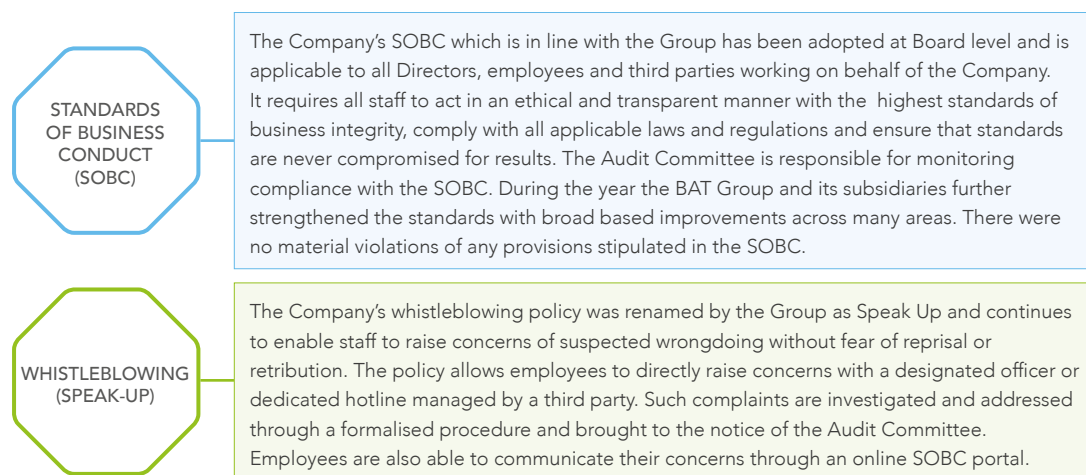
The External Auditor has no other relationship with the Company other than operating in the capacity of the auditor.

Risk Management and Internal Controls

The Board is responsible for determining the risk appetite that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control

systems. CTC's risk management and internal controls framework is aimed at safeguarding shareholders' investment, the Company's assets and evaluate and manage risks that may impede the Company's objectives. A discussion on the Company's key risk exposures and mitigation mechanisms are given in the Risk Management Report on page 71 of this document. A risk register based on a standardised methodology is used to identify, assess and monitor financial and non-financial risks. Risk performance is monitored against defined parameters and reviewed by the Board on a consistent basis. Supported by the Audit Committee, the Board annually reviews the effectiveness of the Company's risk and internal control systems (Refer page 75 of this Report for Director's statement on Internal Controls).

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



The Company's SOBC which is in line with the Group has been adopted at Board level and is applicable to all Directors, employees and third parties working on behalf of the Company. It requires all staff to act in an ethical and transparent manner with the highest standards of business integrity, comply with all applicable laws and regulations and ensure that standards are never compromised for results. The Audit Committee is responsible for monitoring compliance with the SOBC. During the year the BAT Group and its subsidiaries further strengthened the standards with broad based improvements across many areas. There were no material violations of any provisions stipulated in the SOBC.

The Company's whistleblowing policy was renamed by the Group as Speak Up and continues to enable staff to raise concerns of suspected wrongdoing without fear of reprisal or retribution. The policy allows employees to directly raise concerns with a designated officer or dedicated hotline managed by a third party. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Audit Committee. Employees are also able to communicate their concerns through an online SOBC portal.

Related Party Transactions

A dedicated Related Party Transactions Review Committee is in place at Board sub-committee level in compliance with the Listing Rules of CSE and related Code of Best Practices of the SEC. A formalised process is in place for related party transactions including identification of related parties, types of transaction and avoidance of conflict of interest. Directors individually declare their transactions with the Company on a quarterly basis and this information is published through the CSE. All related party transactions as defined by the applicable accounting standards are disclosed on Note 25 of the Financial Statements on pages 125 to 129 of this Report.

Shareholder Communication

The Company strives to engage with its shareholders in a continuous and open manner. The Annual General Meeting (AGM) is the main forum for engagement and is generally well attended. Notice of the AGM

and relevant documents are sent to shareholders at least 15 working days prior to the AGM. A summary of procedures governing voting at the AGM is provided in the proxy form and circulated to shareholders prior to the meeting. Directors, including the Chairman of the Audit Committee attend the AGM to respond to questions raised by shareholders.

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

Sustainability and CSI

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

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

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

CORPORATE GOVERNANCE

Listing Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Leadership and Governance on pages 62 to 67.
7.10.2(a)	Independent Directors	Two or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Leadership and Governance on pages 62 to 67.
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Leadership and Governance on pages 58 to 59.
7.10.3(a)	Disclosure relating to Directors	a. The Board shall make a determination annually as to the independence or non independence of each Non Executive Director	Compliant	Leadership and Governance on pages 58 to 59.
		b. Names of independent Directors should be disclosed in the Annual Report		Section of Board of Directors on pages 56 to 59.
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 56 to 59.
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 56 to 59.
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing	Compliant	All Independent Directors meet the criteria on pages 56 to 59.
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Board Compensation and Remuneration Committee Report on page 83.
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Board Compensation and Remuneration Committee Report on page 83.
7.10.5(b)	Report of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Board Compensation and Remuneration Committee Report on page 83.
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;	Compliant	Leadership and Governance on page 83.
		a. Names of Directors comprising the Remuneration Committee		
		b. Statement of remuneration policy	Compliant	Board Compensation and Remuneration Committee Report on page 83.
		c. Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant	Note 5 to Financial Statements on page 110.

Listing Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of the Board Audit Committee on pages 80 and 81
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Report of the Board Audit Committee on pages 80 and 81.
7.10.6(b)	Audit Committee Functions	Overseeing of the,	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		(i) Preparation, presentation and adequacy of disclosures in the Financial Statements, in accordance with Sri Lanka Accounting Standards.		
		(ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		(iv) Assessment of the independence and performance of the External Auditors.	Compliant	Report of the Board Audit Committee on pages 80 and 81.
	(v) Make recommendations to the Board pertaining to appointment, re-appointment and removal of External Auditors and to approve the remuneration and terms of engagement of the External Auditors.	Compliant	Report of the Board Audit Committee on pages 80 and 81.	
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	Report of the Board Audit Committee on pages 80 and 81.
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	Report of the Board Audit Committee on pages 80 and 81.

CORPORATE GOVERNANCE

Listing Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
9.2.1	Related Party Transactions Review Committee	The Company shall have a Related Party Transactions Review Committee (RPTRC)	Compliant	Report of RPTRC on page 82.
9.2.2	The composition of RPTRC	The committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors	Compliant	Report of RPTRC on page 82.
		One Independent Non-Executive Director should be appointed as Chairman of the Committee	Compliant	Report of RPTRC on page 82.
9.3.2.(c)	Disclosure in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee;	Compliant	Report of RPTRC on page 82.
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/ observations to the Board of Directors.	Compliant	Report of RPTRC on page 82.
		The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	Report of RPTRC on page 82.
		The number of times the Committee has met during the Financial Year	Compliant	Report of RPTRC on page 82.
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Report of RPTRC on page 82 and Note 25 on page 125.

RISK MANAGEMENT

“THE COMPANY CONDUCTS REGULAR ASSESSMENTS OF ITS RISK LANDSCAPE TO EFFECTIVELY IDENTIFY EMERGING RISKS THAT COULD AFFECT ITS PERFORMANCE, STABILITY, BUSINESS MODEL OR SUPPLY CHAIN. WHILE THE KEY RISK FACTORS AFFECTING THE COMPANY REMAINED BROADLY UNCHANGED IN 2019, THE INTENSITY AND/OR POTENTIAL IMPACT OF CERTAIN RISK FACTORS HAVE CHANGED. THE MODERATION IN MACRO-ECONOMIC CONDITIONS AND DECELERATION IN CONSUMER SPENDING FOLLOWING THE EASTER SUNDAY ATTACKS IN APRIL 2019 HAD AN IMPACT ON THE COMPANY’S OVERALL RISK PROFILE DURING THE YEAR.”

Risk Governance

The Board holds apex responsibility for ensuring that the Company’s risks are identified and mitigated effectively. The Board is supported by the Audit Committee in discharging its risk management related responsibilities and the Audit Committee reviews the effectiveness of the Company’s risk management and internal control systems bi-annually. A dedicated Risk Management Committee (RMC) headed by the Company’s

Finance Director and consisting of Senior Managers representing the key functions report to the Executive Committee on the risk performance of each function on a regular basis. The Company’s risk profile is also monitored through the internal reporting mechanisms of the Group.

The Company’s risk management framework is characterised by defined mandates, comprehensive

policy frameworks and clear governance structures. As a subsidiary of a global group, CTC also benefits from the international harmonisation of global best practices in risk management and has been successful in nurturing a culture, which aptly balances risk and growth considerations.

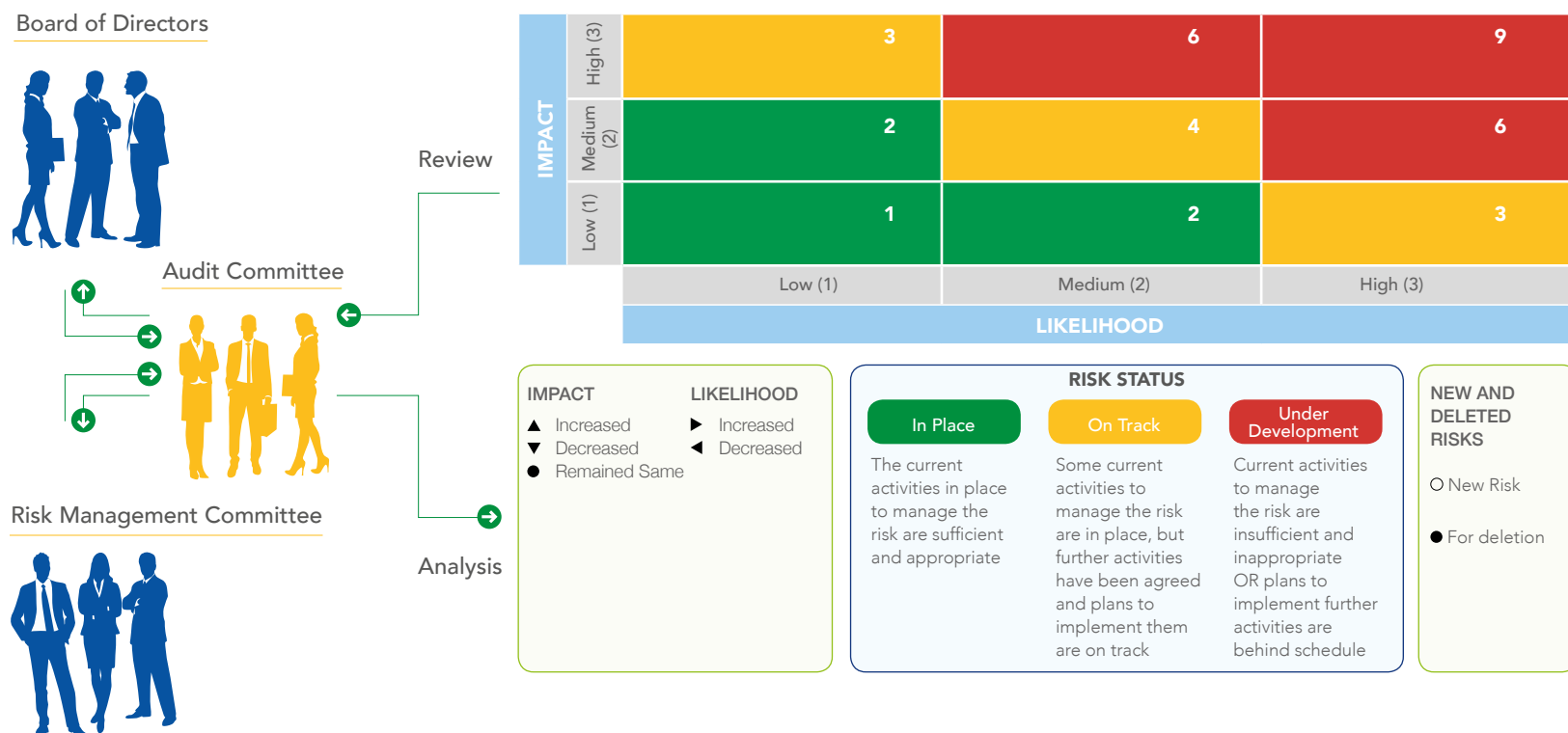
Risk Identification - Every year, a risk assessment is carried out to identify the principal variables and uncertainties faced by the Company, including those that would threaten its business model, future performance, solvency or liquidity. Financial and non-financial risks are identified at a functional level, with inputs from relevant subject matter experts in the organisation. The identified risks are reviewed for completeness by the RMC on a regular basis and reported to the Audit Committee and Executive Committee.

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

Risk Management Approach



RISK MANAGEMENT



Risk Management - Based on the risk scores derived from the risk assessment, the respective functions formulate strategies to curtail and mitigate these risk exposures. Responsibility for managing each identified risk is allocated to the head of function (Executive Committee Member) best placed to manage it as the risk owner. A Functional Leadership Team member who is assigned as the risk manager by the risk owner is responsible to report to the RMC on how it is progressing with managing the risk. Additionally, the potential impact of global trends and risks are also captured through input by the Group's Regional Audit Committee, which also recommends improvements in internal controls in line with global best practices.

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

Principal Risks in 2019

The Company's key risk exposures for 2019 are highlighted on page 73. When describing each risk, we have considered it in the context of the Company's strategic priorities along with the potential impact and mitigation mechanisms. The risks detailed below are the ones that the Board

believes could have the most significant impact on the Company's ability to create value. Some of these major risks are outside the control of the Company and other factors besides those listed below may affect the Company's performance. Some risks may be unknown at present; others which are currently regarded as immaterial, could emerge as material risks in the future.

Summary of Key Risks of 2019

Principal risks	Risk assessment compared to last year		Timeline of risk	Risk management mechanisms in place
	Impact	Likelihood		
Competition from illicit trade	▲	▶	Mid to long term	●
Competition from beedi	▲	▶	Medium term	●
Unfavourable and unplanned excise and taxes	▲	●	Mid to long term	●
Unreasonable regulation and unlawful enforcement of tobacco regulation	●	●	Long term	●
Impact of price increases on consumer affordability	▲	●	Short to medium term	●
Business disruption due to act of terrorism	▲	▶	Short to medium term	●
Difficulties in recruiting/retaining talent	●	◀	Long term	●

Impact: ▲ Increased ▼ Decreased ● Remained Same
Likelihood: ▶ Increased ◀ Decreased ● Remained Same

Competition from Illicit Trade

The illicit market comprises smuggled products, counterfeit cigarettes and locally manufactured tobacco products on which applicable taxes are evaded. The increasing price disparity between legal and smuggled cigarettes have fuelled the growth of the illicit market, which is estimated to have expanded by 45% to 740 million illicit sticks in 2019, now accounting for 8% of the total tobacco market. In addition to the direct impact on the Company's market share and volumes, the growth of the illicit market has also defeated the Government's public health objectives and for the first time, resulted in a decline in tobacco tax revenue.

Competition from Beedi

Beedi has continued to gain market share accounting for 61% in 2019 compared to just 20% in 2007. The beedi market continues to be underregulated and undertaxed with only the imported tendu leaves being taxed. In recent years there has also been a spike in smuggled tendu leaf imports, which further deprives the Government of legitimate taxes.

Unfavourable and Unplanned Excise and Taxes Impacting Consumer Affordability

Excise duties and taxes on tobacco products are a key source of government revenue leading successive governments to view the industry as

a potential source of additional revenue during periods of fiscal difficulties. Over the past 5 years, cigarette prices increased by more than 117%, driven by excise and taxes. In 2019, we witnessed the unprecedented implementation of two price hikes, which led to the average price of a cigarette to increase by 17%; this coupled with the moderation in consumer spending during the year, had a significant impact on the Company's volumes and consequently government revenue

Unreasonable Regulations and Unlawful Enforcement in Tobacco Regulations

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

Impact of Price Increases on Consumer Affordability

The Company's ability to adjust retail prices to reflect rising manufacturing costs is limited, particularly

given the excise-driven steep escalation in prices and the adverse impacts on consumer affordability. In 2019, this was further compounded by the subdued economic conditions and deceleration in consumer spending which had a direct impact on our volumes.

Business Disruption Due to Acts of Terrorism

The Easter Sunday terror attacks impacted the civil society and the economy in greater scales. As a result, the country's most promising industry, tourism was heavily impacted. The Company, being a labour-intensive business, provides employment to a lot of people (direct and indirect) and any adverse impact to the economy affects its growth and consumer demand levels for its products. Security related expenses and resources were also increased to protect Company's employees and its assets to ensure uninterrupted operation.

Difficulties in Attracting and Retaining Talent

The Company could be exposed to difficulties in attracting and retaining the right people who have the ability and personal leadership skills to drive its strategic objectives, whether due to social perceptions and stigma surrounding the tobacco industry or due to incompatibility with the new millennial generation and beyond.

ASSESSMENT OF GOING CONCERN

The Financial Statements of CTC for the year ended 31 December 2019 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 proactiveness and compliance with legal and statutory requirements.
- ⦿ Low likelihood that legal cases filed against the Company will have significant adverse effect on its operations.
- ⦿ Robust risk management process and migratory action plans.

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

STATEMENT OF INTERNAL CONTROLS

Statement of Internal Controls

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

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

To be effective, internal control must:

- be embedded within the organisation;
- enable responsiveness to change;
- 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 local laws and other applicable regulations.

Within this framework, each Head of Function has the responsibility for establishing and operating detailed

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

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

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

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

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

- a detailed and upto date statement of Delegated Authorities that enables the Board to exercise appropriate control over the business through the Executive Committee.

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

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

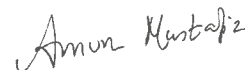
These best practices were complied with during the year 2019.

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.

The Board having implemented the above, believes that the disclosures in the Annual Report provide meaningful and high-level information and do not give misleading impressions.



NEDAL SALEM
Managing Director and CEO



AMUN MUSTAFIZ
Finance Director

26 February 2020

REPORT OF THE DIRECTORS

The Directors have great pleasure in presenting their Annual Report of the Company to the members for the year ended 31 December 2019, together with the audited Financial Statements of the Company.

Structure and Key Activities

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

84.13%



Ceylon Tobacco Company PLC

Principal Activity

(Manufacturing, marketing and selling of cigarettes in the domestic market and export of cigarettes)

Results for the year 2019 and appropriations

Indicator	Rs.000's	Rs.000's
Retained profit as at 1 January 2019		3,486,172
Current year's profit after charging all expenses and providing for all known liabilities		17,258,945
Dividends		
Dividends of Rs. 95.77 per share on the Issued Share Capital of 187,323,751 shares		
2018 Final dividend - Rs. 15.77 per share paid on 24/05/2019		
First Interim dividend - Rs. 19.00 per share paid on 04/06/2019		
Second Interim dividend - Rs. 20.00 per share paid on 29/08/2019		
Third Interim dividend - Rs. 21.00 per share paid on 28/11/2019		
Fourth Interim dividend - Rs. 20.00 per share paid on 23/01/2020		
Net dividend	(16,032,096)	
Dividend tax	(1,907,900)	
		(17,939,996)
Write back of unclaimed dividends		29,771
Re-measurement of Plan Asset		(85,266)
Balance carried forward to 2020		2,749,626

Interim dividends of Rs. 14,986 million have been paid and a final dividend of Rs. 2,272 million proposed from the current years profit of Rs. 17,259 million.

Capital Expenditure

The Company capitalised a sum of Rs. 884 million in property plant and equipment in its modernisation programme. The movements in property, plant and equipment for the year are shown in Note 11 to the Financial Statements. Market value of the properties are disclosed under Note 11(a).

Donations

Included in the current year's result is a sum of Rs. 25.8 million on Corporate Social Investments shown in Note 7 to the Financial Statements.

Contingent Liabilities and Commitments

Contingent Liabilities and Commitments as at the year-end are disclosed in Notes 22 and 23 to the Financial Statements.

The Board of Directors

The Board of Directors of the Company consisted of six members as at 31 December 2019. Profiles of the Directors are disclosed in pages 56 to 59 of the Annual Report.

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

Name	Change	Date
Mr. Kenneth Allen (Non-Executive Director)	Demised	March 2019
Mr. Michael Koest (Managing Director)	Resigned	May 2019
Mr. Nedal Salem (Managing Director)	Appointed	May 2019
Mr. Usman Zahur (Non-Executive Director)	Appointed	May 2019
Mr. Syed Javed Iqbal (Chairman)	Retired	August 2019
Mr. William Pegel (Chairman)	Appointed	August 2019

Independence of Non-Executive Directors

In accordance with the Colombo Stock Exchange Rule No.7.10.4 the Directors determined that Mr. Yudhishtan Kanagasabai and Mr. Anil Tittawella, as Independent Directors based on declarations made by them according Appendix 7A of the Stock Exchange Rules.

Re-election of Directors

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

Mr. Nedal Salem, Mr. Usman Zahur and Mr. William Pegel who were appointed since the last Annual General Meeting, come up for re-election under the Company's Articles of Association.

Directors' Interest in Contracts and Related Party Transactions

Directors' interests in contracts and related party transactions are disclosed in Note 25 to the Financial Statement and have been declared at the meetings of the Directors.

During the year we strengthened the disclosure requirements for Directors, resulting from which the following additional disclosure has been included in the interests register; Mr. Y.Kanagasabai is a Non-Executive Director of Cargills Food Company Limited.

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

Results for the year 2019 and appropriation

Name	2019	2018	Growth
Turnover (Rs. million)	141,342	145,298	-3%
Profit for the year (Rs. million)	17,259	17,004	1%
No. of shares	187,323,751	187,323,751	-
Earnings per share - Rs.	92.13	90.78	1%
Net assets per share - Rs.	24.68	28.61	-14%
Market price per share - Rs.	1,100.30	1,415.00	-22%
Price earnings ratio	11.94	15.58	-23%
Dividends per share - Rs.	95.77	86.80	10%

REPORT OF THE DIRECTORS

Director's Shareholding

No Director disclosed above has any shareholding.

Future Developments

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

Reserves

Total reserves as at 31 December 2019 comprise of revenue reserves amounting to Rs. 2,750 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 133.

Employee Share Ownership Plans

The Company has no share ownership plans as at 31 December 2019. However, the BAT Group through an International Executive Incentive Scheme ("IEIS") offers value of phantom shares in BAT plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

Statutory Payments

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

Going Concern

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

Compliance with Regulations

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

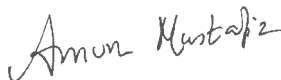
Independent Auditors

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



NEDAL SALEM

Managing Director and CEO



AMUN MUSTAFIZ

Finance Director

26 February 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The responsibility of the Directors, in relation to the Financial Statements, is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, is set out in the Independent Auditor's Report on pages from 89 to 90.

The Companies Act No. 7 of 2007 requires the Directors to prepare and present Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for the financial year and place them before a general meeting of shareholders. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2019, the Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year then ended and Accounting Policies and Notes thereto.

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

- ◉ financial position of the Company as at 31 December 2019; and
- ◉ financial performance of the Company for the financial year ended 31 December 2019.

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

- i. The appropriate accounting policies have been selected and applied in a consistent manner and material departures, if any have been disclosed and explained;
- ii. All applicable Sri Lanka Accounting Standards (SLFRS/LKAS), as relevant, have been followed;
- iii. Judgments and estimates have been made which are reasonable and prudent.

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

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

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

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 form their audit opinion in accordance with Sri Lanka Auditing Standards (SLAuS).

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

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

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the balance sheet date have been paid or, where relevant provided for, except as specified in Note 22 to the Financial Statements covering contingent liability.



WILLIAM PEGEL
Chairman



NEDAL SALEM
Managing Director and CEO

26 February 2020

REPORT OF THE BOARD AUDIT COMMITTEE

Composition

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

Mr. Yudhishtan Kanagasabai - Chairman;

Mr. Anil Tittawella; and

Mr. Usman Zahur

The Chairman of the Committee is a Fellow of the Institute of Chartered Accountants of Sri Lanka and a former Territory Senior Partner of PricewaterhouseCoopers, Sri Lanka and the Maldives. The Board is satisfied that the Committee have an adequate blend of accounting, auditing, legal and commercial experience to carry out their duties. Brief profiles of the Committee members are given in pages 58 to 59 of this report.

The Company Secretary serves as the Secretary to the Committee.

Meetings

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

The attendance of the members at these meetings are given in page 65 of this report.

Terms of Reference

The Charter of the Committee, which is approved and adopted by the Board of Directors, clearly defines the terms of reference governing the

Board Audit Committee. The ‘Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange’ and ‘Code of Best Practice on Corporate Governance’, issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, further regulate the composition, roles and functions of the Committee.

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

The Role of the Audit Committee

The role of the Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance report on page 64.

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

Key Responsibilities of the Board Audit Committee

Financial Reporting:

The primary role of the Committee in relation to financial reporting is to monitor the integrity of the Company’s Financial Statements and formal announcements, if any, relating to the Company financial performance. The Committee reviewed and discussed the Company’s quarterly and annual Financial Statements prior to publication. The Committee also reviewed the matters communicated to the Committee by the External Auditor in their reports to the Audit Committee on the audit for the year.

The scope of the review included ascertaining compliance with relevant disclosures with the Sri Lanka Accounting Standards including new Accounting Standards which came into effect during the year, the appropriateness of accounting policies, material judgement matters, alternative accounting treatments, material audit adjustments, going concern assumption, financial reporting controls and compliance with applicable laws and regulations that could impact the integrity of the Company’s Financial Statements, its Annual Report and its quarterly Financial Statements prepared for publication.

Internal Control:

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

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

Internal Audit:

The establishment and maintenance of appropriate systems of risk management and internal control is primarily the responsibility of business management. The BAT Group Internal Audit function provides independent and objective

assurance in respect of the adequacy of the design and operating effectiveness of the framework of risk management, control and governance processes across the Group, focusing on the areas of greatest risk to CTC using a risk based approach.

Executive management is responsible for ensuring that recommendations made by the Group Internal Audit function are implemented within an appropriate and agreed timetable. The Committee noted the plan of Internal Audit which is based on risk assessments by the BAT Internal Audit function. There were no specific Internal Audits carried out in the Company for the year 2019.

External Audit:

The External Auditors' Letter of Engagement, including the scope of the audit, was reviewed and discussed by the Committee with the External Auditors and management prior to commencement of the audit. The Auditors were also provided with the opportunities of meeting the Committee independently, to discuss and express their opinions on any matter and for the Committee to have the assurance that the Management has fully provided all information and explanations requested by the Auditors. The Committee reviewed opportunities for improvement which were observed during the audit and the letter of representation issued to the External Auditors to ensure that the representations made were consistent with the understanding of the Committee, as to the Company's operations and plans.

The Committee is satisfied that the independence of the External Auditors has not been impaired by any event or service that gives rise to a conflict of interest. The Committee has recommended to the Board of Directors that Messrs. KPMG, Chartered Accountants, be reappointed for the financial year ending 31 December 2020 subject to the approval of shareholders at the next Annual General Meeting.

Conclusion

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



YUDHISHTRAN KANAGASABAI

Chairman

Board Audit Committee

26 February 2020

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

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

Composition

The Committee comprised the following members as at the end of the year with three Independent Directors, two of them being Independent Non-Executive Directors and is chaired by an Independent Non-Executive Director.

Mr. Yudhishtan Kanagasabai - Chairman

Mr. Anil Tittawella

Mr. Usman Zahur

Brief profiles of the Committee members are given on pages 56 to 59 of this report.

Ms. Amun Mustafiz, Finance Director, who was a member of the Committee since 14 December 2018 resigned and was made a permanent invitee to the Committee, with effect from 18 September 2019. Mr. Usman Zahur, Non-Executive Director, was appointed as a member of the Committee with effect from 18 September 2019.

Meetings

The Committee held four Meetings in relation to the year 2019. The Managing Director and CEO, other members of the Executive Committee or any other manager (where relevant) of the Company will attend a meeting on the request of the Committee. The Finance Director or her nominee

subject to approval of the Committee will act as the Secretary of the Committee. The attendance at the meetings held is given in the table on page 65 of this report.

Objective

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

Terms of Reference

The Committee in discharging its functions ensures that:

- There is compliance with the aforesaid Code and CSE listing rules;
 - Shareholder interests are protected; and
 - Fairness and transparency are maintained.
- The approved Guidelines for conducting Related Party Transactions sets out, among others, the following:
- The principles that guide RPTs including pre-approval and other reporting requirements;
 - Process to identify transactions that require immediate market disclosures and shareholder approval;
 - Steps to be followed by the Management in reporting RPTs to the Committee, including documentation templates.
 - The Executive and Non-Executive Directors of the Board and Executive Committee Members of Ceylon Tobacco Company PLC would form a part of the Key Management Personnel.

Activities

During the year, the Committee reviewed the related party transactions of Ceylon Tobacco Company and their compliances according to SEC Code and CSE listing rules. There were five non recurrent RPTs which required pre-approval from the Committee and the recurrent RPTs were reviewed on quarterly basis for noting. Furthermore, there were no RPTs which met the disclosure thresholds as per the SEC Code and CSE listing rules. The Committee have been communicated the same to the Board of Directors, quarterly, through verbal briefings, and by tabling the minutes of the Committee's meetings.

The Committee in its review process, recognised the adequacy of the content and quality of the information forwarded to its members by the management during the year and is satisfied on the compliance of RPTs in accordance to SEC code and CSE listing rules.



YUDHISHTRAN KANAGASABAI
Chairman

Related Party Transactions Review Committee

26 February 2020

REPORT OF THE BOARD COMPENSATION AND REMUNERATION COMMITTEE

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

The Committee comprised with the following Independent Non-Executive Directors.

Mr. Anil Tittawella - Chairman

Mr. Yudhishtan Kanagasabai

The scope of the committee includes the following:

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

Also, the committee reviews and approves Remuneration Policy for below:

- ◉ Basic salaries
- ◉ Perquisites and benefits
- ◉ Performance bonus
- ◉ Pension entitlements
- ◉ Long-term incentive plan

The Board Compensation Committee met only on one occasions during the year 2019. During this meeting, the Board Compensation Committee reviewed the below topics and approval was granted.

- ◉ Employee Compensation and Benefit Proposals 2019
- ◉ Pay Range Review
- ◉ Salary Review



ANIL TITTAWELLA

Chairman

Remuneration and Board Compensation
Committee

26 February 2020

REPORT OF THE NOMINATION COMMITTEE

Ceylon Tobacco Company PLC's Nominations Committee performs an assessment on Board composition as and when the need for the appointment of new Independent Non-Executive Board members arises.

The Committee comprised with the following Directors;

Mr. Nedal Salem - Chairman

Mr. Yudhishtran Kanagasabai

Mr. Anil Tittawella

The scope of the Committee includes the following:

1. Propose a suitable Charter for the appointment and the re-appointment of Independent Non-Executive Directors to the Board
2. Provide advice and recommendation to the Board or the Chairman on appointing Independent Non-executive Directors
3. The selection and appointment of Independent Non-Executive Directors in case a vacancy arises
4. Regularly review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board with regard to any suitable changes

The Nominations Committee meets only when there is a necessity. During 2019 the Nominations committee did not meet, as there were no Independent Non-Executive Director appointments.



NEDAL SALEM

Chairman

Nominations Committee

26 February 2020

100 YEARS

AN ENDURING
LEGACY OF
VALUE CONTINUES...

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FINANCE DIRECTOR'S REVIEW

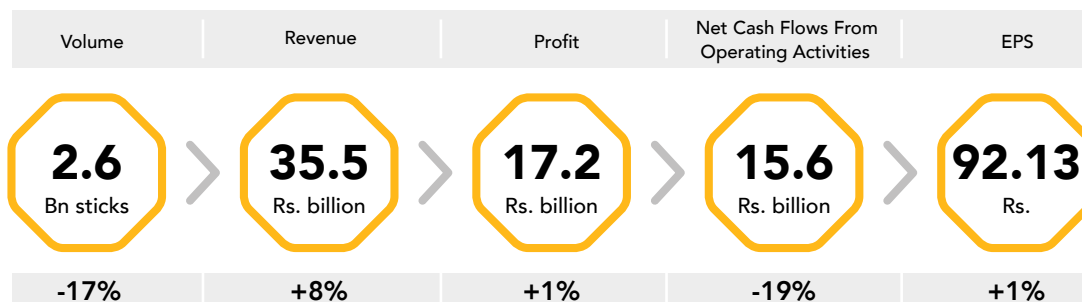


AMUN MUSTAFIZ
Finance Director

Ceylon Tobacco Company PLC (the Company) continued to grow shareholder value in 2019 amidst a very challenging operating environment. As the only legal player in the tobacco industry, the Company faced two excise led price increases across its portfolio throughout the year, making legal cigarettes in Sri Lanka the most expensive in the world in terms of consumer affordability. With the increased price gap between legal cigarettes, and duty not paid smuggled products and cheap alternatives like Beedi, the Company's volume declined significantly. This has not only impacted the Company's performance for the year but also the future sustainability of a business that contributes 97% of government revenue from the tobacco industry.

However, the Company remained committed to long-term sustainability in terms of driving for consistent growth in government revenue, developing capabilities amongst our employees and value chain partners, giving back to the

OVERVIEW



communities we operate in and driving for sustainable shareholder value growth.

In 2019 the Company delivered a 4% growth in profit before tax, to Rs. 28.69 billion amidst the 17% decline in volume. This sustainable performance was shaped by focused business strategy on creating consumer value, leveraging on opportunities across the business, investments in portfolio and growth, and driving for cost efficiencies.

Revenue and Profit from Operations

Turnover declined by 3% with 17% decline in domestic volumes at the back of two excise shocks coupled with consumer disposable income reduction due to sharp downturn in economic activities and money circulation following the Easter Sunday attacks, which hindered consumer affordability. Consequently, for the first time in the recent history of the Company, government revenue generated through excise and other levies declined by 4% compared to the previous year.

The growth in illicit cigarettes and beedi at the expense of legal cigarettes remains a significant threat to the revenue growth of the Government and the Company's commercial viability in contributing to the development of the country. In 2019, undertaxed beedi and smuggled cigarettes accounted for 69% of the total smoking

tobacco market while beedi only contributed 3% of government revenue from the tobacco sector. Therefore, it is imperative for Government authorities to drive a balanced and evidence based fiscal agenda along with effective enforcement measures to curtail illicit cigarettes and ensure price parity between low end legal cigarettes and beedi.

Despite the volume decline, the Company's revenue grew by 7.9% and delivered a solid bottom line as a result of a focused portfolio strategy coupled with a lean and agile cost base. Other operating expenses increased by 57% vs previous year mainly due to a reduction of constructive liability in 2018 with regards to changes in tax regimes over the past few years.

Investment for Growth

With deep insights on evolving consumer preferences and behaviour over the last few years, the Company invested significantly in research and product development to offer an innovative range of products and value propositions to adult consumers and in building "future fit" capabilities in trade. The Company also invested in enhancing the factory footprint and machine upgrades to achieve greater manufacturing flexibility and capabilities to cater to future portfolio requirements.

In order to build a strong talent pool, the Company continued to make substantial investments in talent development during 2019 by providing local and international training opportunities to more than 80% of its employees. Moreover, in order to accelerate development of key talents, employees were sent on overseas leadership training programmes and on overseas assignments to other regional and global markets in the Group during the year.

Cashflow and Liquidity

Reduced turnover coupled with increased working capital, higher income tax payments and dividend payments resulted in a 19% decrease of net cash flows from operating activities compared with the previous year. Despite the reduction in cashflows and reduced interest rates, the close monitoring of cash flow requirements and regular reviews of the investment position resulted in optimisation of interest income, which increased by 6% in 2019 compared to previous year. The Company remains committed to follow effective capital management and resource allocation policies into the future. The Company did not experience any bad debts arising from its trade debtors and the credit exposures of distributors remained fully covered through bank guarantees and a distributor financing scheme with a bank.

Creating Value for Shareholders

Profit before tax grew by 4.4% to Rs. 28.7 billion, driven by a focused product portfolio strategy and commitment on distribution and supply chain efficiencies driving the best operating margin across the Group.

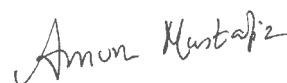
The Company continued to generate sustainable value to its shareholders in 2019. Dividends paid per share recorded a growth of 10.3% year-on-year. Additionally, when measured on a five-year annualised basis, both dividend per share and earnings per share growth ranked the highest relative to the Top 20 listed companies in the country.

The Company also maintained its position as one of the most valuable listed companies in the country, with a Market Capitalisation of Rs. 206 billion by end-December 2019, which accounted for 7% of the Colombo Stock Exchange's total Market Capitalisation. The Company's share price closed the year at Rs. 1,100 from Rs. 1,415 in the previous year. The decline in the Company's share price and Market Capitalisation is largely attributed to a major foreign shareholder exiting Sri Lankan equities during the second half of the year due to fund specific requirements.

The Company also sustained its dividend payout ratio of 99.9% as a highest payout ratio among the top listed companies in the country.

Name	2019	2018
Earnings per share	92.13	90.78
Dividend per share*	92.13	90.77
Share Price	1,100.30	1,415.00
Dividend payout	99.9%	99.9%

*Paid and proposed



AMUN MUSTAFIZ

Finance Director

FINANCIAL CALENDAR

2019

First Quarter Results 2019	May-19
Second Quarter Results 2019	Aug-19
Third Quarter Results 2019	Nov-19
Fourth Quarter Results 2019	Feb-20
Annual Report 2019	May-20
89th Annual General Meeting	Jun-20

2020

First Quarter Results 2020	May-20
Second Quarter Results 2020	Aug-20
Third Quarter Results 2020	Nov-20
Fourth Quarter Results 2020	Feb-21
Annual Report 2019	Apr-21
89th Annual General Meeting	May-21

INDEPENDENT AUDITOR'S REPORT



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TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies set out on pages 91 to 129 of this annual report.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS).

Basis for Opinion

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

Key Audit Matters

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

1. Revenue Recognition

As described in Note 2.21 (accounting policies) and Note 4 (Revenue), the Company recorded revenue of 35.5Bn for year ended 31 December 2019 (2018: 32.9Bn).

Key audit matter

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

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

We focused on whether transactions have been recorded in the period in which the Company becomes entitled to record revenue in accordance with SLFRS 15.

Our audit procedures included,

- Identifying and evaluating the design and implementation and operating effectiveness of key controls relating to revenue recognition.

- Performing a fraud risk assessment through inquiry of management regarding any actual or suspected override of controls in relation to revenue recognition.
- Reviewing report on General IT Controls and Application Controls tested by our IT specialist.
- Testing design and implementation and operating effectiveness of controls over journal entries and post-closing adjustments.
- Through inquiry and observation assessing the accounting for significant transactions that are outside of the normal course of business, or are otherwise unusual.
- Testing that amounts have been recognised in the correct period for cut-off and evaluate whether there are any significant amount of returns after the year end.

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan FCA
A.M.R.P. Alahakoon ACA

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
M.N.M. Shameel ACA

C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

INDEPENDENT AUDITOR'S REPORT



materially misstated. If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

and performance of the Company audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 1798.

CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

26 February 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

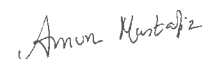
(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December	
		2019	2018
Turnover	4	141,341,887	145,298,290
Government levies	4	(105,818,189)	(112,367,760)
Revenue		35,523,698	32,930,530
Raw materials used		(2,212,800)	(2,591,515)
Employee benefit expenses	5	(1,477,244)	(1,453,971)
Depreciation expenses	11	(295,716)	(172,271)
Amortisation expenses	12	(479)	-
Other operating expenses		(4,550,084)	(2,889,766)
Other operating income	6	70,093	80,958
Operating profit		27,057,468	25,903,965
Net finance income	8	1,633,376	1,572,848
Profit before income tax		28,690,844	27,476,813
Income tax expenses	9	(11,431,899)	(10,472,465)
Profit for the year		17,258,945	17,004,348
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	13	(85,266)	21,480
Total other comprehensive income for the year		(85,266)	21,480
Total comprehensive income		17,173,679	17,025,828
Earnings per share			
- Basic (Rs.)	10	92.13	90.78
- Diluted (Rs.)		92.13	90.78

The Notes on pages 95 to 129 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees thousands)	Note	As at 31 December	
		2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	11	3,978,265	3,081,991
Intangible assets	12	2,970	-
Employee benefit plan asset	13 (b)	196,817	275,588
Other receivables	15	116,152	122,292
		4,294,204	3,479,871
Current assets			
Inventories	14	2,729,449	2,334,119
Trade and other receivables	15	2,798,976	2,241,962
Assets held for sale	11 (b)	279	279
Cash and cash equivalents	16	16,845,231	20,152,563
		22,373,935	24,728,923
Total assets		26,668,139	28,208,794
EQUITY AND LIABILITIES			
Equity			
Stated capital	17	1,873,238	1,873,238
Retained earnings		2,749,626	3,486,172
		4,622,864	5,359,410
Non-current liabilities			
Unfunded retirement benefit obligation	13 (a)	163	200
Deferred tax liabilities	18	596,836	562,005
Lease liabilities	21	119,410	-
		716,409	562,205
Current liabilities			
Trade and other payables	19	10,680,833	12,638,097
Lease liabilities	21	99,811	-
Income tax liabilities		6,474,856	5,550,111
Dividend payable	20 (a)	3,746,475	3,813,823
Unclaimed dividends	20 (b)	326,891	285,148
		21,328,866	22,287,179
Total liabilities		22,045,275	22,849,384
Total equity and liabilities		26,668,139	28,208,794

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

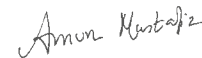


AMUN MUSTAFIZ
Finance Director

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue by Board of Directors on 26 February 2020.



NEDAL SALEM
Managing Director and CEO



AMUN MUSTAFIZ
Finance Director

26 February 2020

The Notes on pages 95 to 129 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees thousands)	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2018		1,873,238	2,697,116	4,570,354
Profit for the year		-	17,004,348	17,004,348
Other comprehensive income		-	21,480	21,480
Total comprehensive income for the year		-	17,025,828	17,025,828
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	22,929	22,929
Dividends	20 (c)	-	(16,259,701)	(16,259,701)
Total transactions with shareholders		-	(16,236,772)	(16,236,772)
Balance at 31 December 2018		1,873,238	3,486,172	5,359,410
Balance at 1 January 2019		1,873,238	3,486,172	5,359,410
Profit for the year		-	17,258,945	17,258,945
Other comprehensive income		-	(85,266)	(85,266)
Total comprehensive income for the year		-	17,173,679	17,173,679
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	20 (b)	-	29,771	29,771
Dividends	20 (c)	-	(17,939,996)	(17,939,996)
Total transactions with shareholders		-	(17,910,225)	(17,910,225)
Balance at 31 December 2019		1,873,238	2,749,626	4,622,864

The Notes on pages 95 to 129 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

(all amounts in Sri Lanka Rupees thousands)	Note	Year ended 31 December	
		2019	2018
Cash flows from operating activities			
Cash generated from operations	24	24,450,124	26,106,699
Interest received	8	1,665,633	1,572,848
Interest paid	8	(32,257)	-
Benefits withdrawn by the employer from plan asset	13 (b)	-	450,000
Gratuity Paid - Unfunded Scheme		(37)	(318)
Taxes paid		(10,472,323)	(8,778,273)
Net cash generated from operating activities		15,611,140	19,350,956
Cash flows from investing activities			
Purchases of property, plant and equipment	11	(884,498)	(996,321)
Purchase of intangible assets	12	(3,449)	-
Net cash used in investing activities		(887,947)	(996,321)
Cash flows from financing activities			
Dividends paid	20 (a)	(17,932,140)	(15,623,714)
Unclaimed dividends paid	20 (b)	(3,690)	(2,228)
Payment of lease liabilities		(94,695)	-
Net cash used in financing activities		(18,030,525)	(15,625,942)
(Decrease) / Increase in cash and cash equivalents		(3,307,332)	2,728,693
Movement in cash and cash equivalents			
At beginning of year		20,152,563	17,423,870
(Decrease) / Increase in cash and cash equivalents		(3,307,332)	2,728,693
At end of year	16	16,845,231	20,152,563

The Notes on pages 95 to 129 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION & OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of preparation

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

They were authorised for issue by the Company's Board of Directors on 26 February 2020.

2.2. Presentation of functional currency

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

2.3. Going concern

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

2.4. Summary of significant accounting policies

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

Change in significant accounting policies

The Company has initially applied SLFRS 16 from 01 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

SLFRS 16 replaces existing leases guidance, including LKAS 17 leases and related interpretations. SLFRS 16 introduces a single on balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company has adopted SLFRS 16 using the modified retrospective approach (option B), under which no cumulative effect of initial recognition is recognised in retained earnings at 1 January 2019. Accordingly the comparative information

presented for 2018 is not restated - i.e it is presented as previously reported, under LKAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

2.4.1. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4. Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2.22.

On transition to SLFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 and IFRIC 4 were not reassessed for whether there is a lease under SLFRS 16. Therefore, the definition of a lease under SLFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

2.4.2. As a lessee

As a lessee, the Company mainly leases properties and vehicles. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under SLFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases - i.e. these leases are on-balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

2.4.2.1. Leases classified as operating leases under LKAS 17

Previously, the Company classified property and vehicle leases as operating leases under LKAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at:

- ⊙ an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Company used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Company:

- ⊙ did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;

- ⊙ excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- ⊙ used hindsight when determining the lease term.

2.4.3. Impact on financial statements

2.4.3.1. Impact on transition

Reconciliation between 2018 future minimum lease payments and 2019 lease liabilities.

(all amounts in Sri Lanka Rupees thousands)	2019
Operating lease commitment as at 31 December 2018 as disclosed in the Company's financial statements	323,526
Adjustment to update for SLFRS 16	114,146
Impact of discounting using incremental borrowing rate as at 01 January 2019	(69,920)
Recognition exemption for leases with less than 12 months of lease term at transition	(53,836)
Lease liabilities recognised at 1 January 2019	313,916

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 11.5%.

2.5. Foreign currency transactions, translation and balances

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

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

2.6. Significant accounting judgements, estimates and assumptions

In preparing the financial statements, management has made judgements and estimates that effect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes:

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

2.7. Segmental reporting

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

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

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

2.8. Property, plant and equipment

Basis of recognition

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

Basis of measurement

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

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

Depreciation and derecognition

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

Free hold buildings	40 years
Leasehold buildings	Over the lease period
Building improvements / upgrades	10 years
Plant and machinery	20 years
Furniture, fittings and office equipment	5 years
IT equipment & household equipment	3 years
Vehicles and accessories	4 years
Lab equipment & canteen equipment	10 years
IT infrastructure	5 years

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

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

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

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

Capital work-in-progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings and major plant and machinery, awaiting capitalisation.

2.9. Intangible assets

Basis of recognition and measurement

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

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

Subsequent measurement

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

Amortisation

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

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

Computer software	3 years
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Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2.10. Financial instruments

Recognition and initial measurement

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

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

A trade receivable without a significant financing components is initially measured at the transaction price.

Classification and subsequent measurement

Financial assets

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

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

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

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

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

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

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Financial assets – Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities

or expected cash outflows or realising cash flows through the sale of the assets;

- ⊙ How the performance of the portfolio is evaluated and reported to the Company's management;
- ⊙ The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- ⊙ How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- ⊙ The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectation about future sales activity.

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

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

Financial Assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value for money and for the credit risk associated with the principal amount outstanding during a particular period of

time and for other basic lending risks and costs. (e.g. liquidity risk and administrative costs), as well as a profit margin.

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

- ⊙ Contingent events that would change the amount or timing of cash flows;
- ⊙ Terms that may adjust the contractual coupon rate, including variable-rate features; and
- ⊙ Terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

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

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Derecognition

Financial assets

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

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

Financial liabilities

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

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

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in

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

2.11. Impairment of financial assets

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

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

Credit-impaired financial assets

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

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

- ⊙ Significant financial difficulty of the borrower or issuer;
- ⊙ A breach of contract such as a default or being more than 90 days past due;

- ⊙ The restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- ⊙ It is probable that the borrower will enter bankruptcy or other financial reorganisation.

2.12. Impairment of non-financial assets

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

2.13. Inventories

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

All other stocks are included under the category of consumables which are valued at cost.

2.14. Trade receivables

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

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

Impairment testing of trade receivables is described in Note 2.11.

2.15. Cash and cash equivalents

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

2.16. Stated capital

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

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

2.17. Trade payables

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

2.18. Income tax

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

Current tax

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

Deferred tax

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

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

2.19. Employee benefits

a. Defined contribution plan

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

CTC Provident Fund

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

Employees' Trust Fund

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

b. Defined benefit plan

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

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

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form of any future refunds from the plan or reductions in future contributions to the plan.

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

c. Short term employee benefits

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

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

d. Share based payments

The fair value of the amount payable to employees in respect of Phantom shares in BAT, which are settled in cash,

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

2.20. Provisions

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

2.21. Revenue recognition

Sale of goods

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

Disaggregation of revenue

SLFRS 15 requires an entity to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty

of revenue and cash flows are affected by economic factors. The Company's contracts with customers are similar in nature and revenue from these contracts are not significantly affected by economic factors apart from exports sales. The Company believes objective of this requirement will be met by using one type of category - Geographical markets (Refer Note 4).

2.22. Leases

The Company has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17 and IFRIC 4. The details of accounting policies under LKAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in SLFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

2.22.1. As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred

and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- ⦿ Fixed payments, including in-substance fixed payments;
- ⦿ Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- ⦿ Amounts expected to be payable under a residual value guarantee; and
- ⦿ The exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 01 January 2019

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

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

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

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2.23. Dividend distribution

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

2.24. Fair value estimation

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

2.25. Comparative information

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

2.26. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Company's financial statements;

- ⦿ Amendments to References to Conceptual Framework in SLFRS Standards.
- ⦿ Definition of Material (Amendments to LKAS 1 and LKAS 8).

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar (USD), Euro (EUR) and the Great Britain Pound (GBP). Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency. Management complies with the treasury policy to manage foreign exchange risk against their functional currency.

The following significant exchange rates were applied during the year:

Closing exchange rate	Year ended 31 December	
	2019	2018
US Dollar (USD)	181.38	182.90
Great Britain Pound (GBP)	240.28	232.94
Euro (EUR)	203.59	209.08

Average exchange rate	Year ended 31 December	
	2019	2018
US Dollar (USD)	178.69	162.52
Great Britain Pound (GBP)	228.14	216.72
Euro (EUR)	200.04	191.72

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result in Rs. 88.9 Million impact on pre-tax profit.

(ii) Price risk

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

Equity price risk

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

Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

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(all amounts in Sri Lanka Rupees thousands)

3.1 Financial risk factors (Contd.)

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge a contractual obligation. Credit risk mainly arises from trade debtors, advances and cash and cash equivalents. Group treasury guidelines are followed for managing cash and cash equivalents while short term investment decisions are taken after proper review by treasury committee ensuring compliance with group guidelines. The Company sales are on an order to order basis with guarantees equivalent to a day's sales, being obtained from all distributors. Management does not expect any losses from non performance by these counterparties. The maximum exposure to credit risk at the reporting date in terms of carrying value of assets are as follows:

	As at 31 December	
	2019	2018
Trade receivables [Note 15]	2,486,169	1,992,168
Receivables from related parties [Note 25 (iii)]	34,301	110,986
Staff loans [Note 15]	225,955	226,934
Advances to farmers [Note 15]	192,360	89,943
	2,938,785	2,420,031
Provision [Note 15]	(113,385)	(57,886)
Cash and cash equivalents, excluding cash in hand	16,845,025	20,152,363
	19,670,425	22,514,508

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

As at 31 December 2019

Aging Category	Gross Receivable	% Provision	Total Provision	Net Receivable
Not Due	2,314,225	0.05%	1,157	2,313,068
1-30 Days	171,129	0.06%	103	171,026
31-60 Days	-	0.07%	-	-
61-90 Days	440	0.07%	-	440
91-120 Days	375	0.08%	-	375
121-180 Days	-	0.08%	-	-
181-360 Days	-	0.09%	-	-
>360 Days	-	0.10%	-	-
	2,486,169		1,260	2,484,909

As at 31 December 2018

Aging Category	Gross Receivable	% Provision	Total Provision	Net Receivable
Not Due	1,689,246	0.05%	845	1,688,401
1-30 Days	183,834	0.06%	110	183,724
31-60 Days	75,135	0.07%	53	75,082
61-90 Days	12,269	0.07%	9	12,260
91-120 Days	15,287	0.08%	12	15,275
121-180 Days	1,800	0.08%	1	1,799
181-360 Days	14,597	0.09%	13	14,584
>360 Days	-	0.10%	-	-
	1,992,168		1,043	1,991,125

Credit quality of financial assets

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

Cash at bank and short term bank deposits

Rating	Year ended 31 December	
	2019	2018
AAA (lka)	1,686,880	16,554,150
AA+ (lka)	429,787	91,421
AA (lka)	9,979	44,580
A-	-	71,013
AA-	14,675,804	3,391,199
BBB+	42,575	-
Total cash at bank and short term bank deposits	16,845,025	20,152,363

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3.1 Financial risk factors (Contd.)

(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 at bank and in hand. Excess funds are invested in term deposits of less than one year. The management considers liquidity risk to be very negligible.

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

At 31 December 2019	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables	6,463,570	451,021	-
At 31 December 2018	Less than 3 months	Between 3 months and 1 year	More than 1 year
Trade and other payables	8,930,331	296,131	-

3.2 Capital management

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

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

During 2019, the Company's strategy, which was unchanged from 2018, was to be fully equity funded and have no external borrowings.

3.3 Analysis of financial instruments by measurement basis

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

As at 31 December 2019	Assets at amortised cost	Assets at fair value through profit or loss	Assets at fair value through other comprehensive income	Total
Assets as per statement of financial position				
Trade and other receivables, excluding pre-payments	2,849,548	-	-	2,849,548
Cash and cash equivalents	16,845,231	-	-	16,845,231
Total	19,694,779	-	-	19,694,779

As at 31 December 2019	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	-	6,914,591	6,914,591
Total	-	6,914,591	6,914,591

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

As at 31 December 2018	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables, excluding non financial liabilities	-	9,226,462	9,226,462
Total	-	9,226,462	9,226,462

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4. REVENUE

	Year ended 31 December	
	2019	2018
Local turnover	141,292,282	145,110,140
Export turnover	49,605	188,150
Total turnover	141,341,887	145,298,290
Government levies		
Excise special provision tax	(87,498,842)	(92,935,428)
Value added tax	(18,236,548)	(19,410,249)
Nation building tax	(62,607)	-
Tobacco tax	(20,192)	(22,083)
Total government levies	(105,818,189)	(112,367,760)
Revenue	35,523,698	32,930,530

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

5. EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
Executive Directors' emoluments	140,231	146,174
Non-Executive Directors' remuneration	7,760	16,988
Salaries and wages	1,150,777	1,087,810
Defined contribution plans	77,646	78,280
Provision for voluntary separation scheme [(a) below]	107,325	155,765
Defined benefit obligations [Note 13]	(6,495)	(31,046)
	1,477,244	1,453,971

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

6. OTHER OPERATING INCOME

	Year ended 31 December	
	2019	2018
Sundry sales / gains	17,752	35,321
Recharge income	52,341	45,637
	70,093	80,958

7. OPERATING PROFIT

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

	Year ended 31 December	
	2019	2018
Auditors' remuneration		
- Audit fees	4,028	4,916
- Audit related services	1,890	1,820
- Non-audit fees	-	-
Legal fees	118,860	91,048
Donations	25,793	32,255
Technical and advisory fees	487,351	638,589
Fixed assets write-offs	6,424	65
Provision for obsolete inventories (net of write-offs)	30,924	3,296
Provision for doubtful debts (net of write-offs)	55,499	14,775
Repairs and maintenance	355,849	258,030

8. NET FINANCE INCOME

	Year ended 31 December	
	2019	2018
Interest income		
- Interest income from bank deposits	1,665,633	1,572,848
Interest expense		
- Interest on lease liabilities [Note 21]	(32,257)	-
Net Finance income	1,633,376	1,572,848

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

9. INCOME TAX EXPENSES

The Company is liable for income tax in accordance with Inland Revenue Act No. 24 of 2017 and income tax has been provided on the taxable income of the Company at 40% and 28% on profits arising from sales and interest income respectively in 2019.

	Year ended 31 December	
	2019	2018
Current tax on profit for the year	11,397,068	10,417,660
Deferred tax [Note 18]	34,831	54,805
	11,431,899	10,472,465

	Year ended 31 December			
	%	2019	%	2018
Profit before tax		28,690,844		27,476,813
Tax calculated at tax rate of 40%	40%	11,476,338	40%	10,990,725
Tax effects of:				
Expenses not deductible for tax purposes	3.17%	364,330	4.77%	524,193
Expenses deductible for tax purposes	(2.12%)	(243,724)	(8.21%)	(901,973)
Rate differentials	(1.74%)	(199,876)	(1.78%)	(195,285)
Deferred taxation	0.30%	34,831	0.50%	54,805
Tax charge	39.61%	11,431,899	35.28%	10,472,465

10. EARNINGS PER SHARE

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

	Year ended 31 December	
	2019	2018
Net profit attributable to shareholders (in thousands)	17,258,945	17,004,348
Weighted average number of ordinary shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs.)	92.13	90.78
Diluted earnings per share (Rs.)	92.13	90.78

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land	Freehold buildings	Capital work in progress	Building improvements/ upgrades	Leasehold buildings	Machinery/ equipment	Motor vehicles	Right of use assets	Total
Cost									
At 1 January 2018	96,837	346,875	423,290	183,970	27,911	4,317,149	9,294	-	5,405,326
Transfers from CWIP	-	10,268	(344,974)	5,166	-	329,540	-	-	-
Additions to CWIP	-	-	996,321	-	-	-	-	-	996,321
Write-offs	-	(215)	-	-	(488)	(8,462)	(651)	-	(9,816)
At 31 December 2018	96,837	356,928	1,074,637	189,136	27,423	4,638,227	8,643	-	6,391,831
Accumulated depreciation									
At 1 January 2018	-	220,494	-	96,056	27,747	2,794,657	8,365	-	3,147,319
Charge for the year	-	5,659	-	14,615	47	151,950	-	-	172,271
Write-offs	-	(215)	-	-	(488)	(8,462)	(585)	-	(9,750)
At 31 December 2018	-	225,938	-	110,671	27,306	2,938,145	7,780	-	3,309,840
Closing net book value	96,837	130,990	1,074,637	78,465	117	1,700,082	863	-	3,081,991
Cost									
At 1 January 2019	96,837	356,928	1,074,637	189,136	27,423	4,638,227	8,643	-	6,391,831
Recognition of right-of-use assets on initial application of SLFRS 16	-	-	-	-	-	-	-	313,916	313,916
Adjusted balance as at 1 January 2019	96,837	356,928	1,074,637	189,136	27,423	4,638,227	8,643	313,916	6,705,747
Transfers from CWIP	-	2,180	(755,633)	36,371	-	717,082	-	-	-
Additions to CWIP	-	-	884,498	-	-	-	-	-	884,498
Write-offs	-	(49)	-	-	(1,481)	(7,417)	-	-	(8,947)
At 31 December 2019	96,837	359,059	1,203,502	225,507	25,942	5,347,892	8,643	313,916	7,581,298
Accumulated depreciation									
At 1 January 2019	-	225,938	-	110,671	27,306	2,938,145	7,780	-	3,309,840
Charge for the year	-	5,300	-	17,208	30	165,877	-	107,301	295,716
Write-offs	-	(34)	-	-	(1,481)	(1,008)	-	-	(2,523)
At 31 December 2019	-	231,204	-	127,879	25,855	3,103,014	7,780	107,301	3,603,033
Closing net book value	96,837	127,855	1,203,502	97,628	87	2,244,878	863	206,615	3,978,265

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. 2,000,293,265 (2018 - 1,878,865,313).

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

11. PROPERTY, PLANT AND EQUIPMENT (CONTD.)

(a) Company property

The freehold land and buildings were valued by professional valuer Sunil Fernando & Associates (Pvt) Ltd. The valuations carried out on 1 July 2017 have been considered to derive the market values of the respective properties as at 31 December 2019.

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

Property		Extent of Land			No of Buildings	Revalued Amount
Asset Type	Location	A	R	P		
Land and Buildings	Colombo head office factory	7	2	22.50	15	4,050,000
Land and Buildings	Kandy industrial premises	3	3	26.05	5	298,750
Land and Buildings	Kandy commercial premises	2	1	18.75	2	166,450
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50	7	20,550
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50	5	51,000
Land and Buildings	Nildanhinna depot, stores and quarters	2	1	4.00	9	20,000
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00	8	11,000
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25	6	39,700
Land and Buildings	Ambale depot, stores and quarters	2	0	9.66	4	18,050
Land and Buildings	Wendaruwa quarters	0	2	0.00	1	3,000
Land and Buildings	Galewela depot, stores and quarters	5	3	39.87	8	88,100
Land and Buildings	Nuwara'eliya	0	1	31.30	1	101,600
Land	Hunnasgiriya	0	2	0.00	-	1,400
Land	Walapane	2	0	3.00	-	3,450
Land	Kabiti gollawa	3	0	0.00	-	7,500
Land	Kalagedihena	1	1	19.30	-	37,600
Land	Naula	0	0	21.00	-	10,500
Land	Nuwara'eliya Yalta	0	1	23.50	-	82,500

(b) Assets held for sale

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

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

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

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

12. INTANGIBLE ASSETS

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

	As at 31 December	
	2019	2018
Cost		
At 1 January	63,425	63,425
Additions	3,449	-
At 31 December	66,874	63,425
Amortisation		
At 1 January	63,425	63,425
Amortisation during the year	479	-
At 31 December	63,904	63,425
Net book value	2,970	-

13. EMPLOYMENT BENEFITS

(a) Unfunded defined benefit plan

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 0.16 million (2018 - Rs. 0.2 million) is not funded and has been provided for in the books of the Company.

	As at 31 December	
	2019	2018
Unfunded obligations	163	200

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 318 (2018 - 320) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy.

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

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

13. EMPLOYMENT BENEFITS (CONTD.)

	As at 31 December	
	2019	2018
Net defined benefit liability	403,435	395,570
Net defined benefit asset	(600,252)	(671,158)
Total employee benefit plan asset	(196,817)	(275,588)

The movement in the defined benefit (asset)/ liability over the year and the comparative periods are as follows:

	Defined benefit obligation	Fair value of plan asset	Net defined benefit (asset) / liability
Included in profit or loss:			
At 1 January 2019	395,570	(671,158)	(275,588)
Current service cost	25,749	-	25,749
Interest expense / (income)	35,636	(67,880)	(32,244)
	61,385	(67,880)	(6,495)
Included in OCI:			
Remeasurements :			
- Return on plan assets, excluding amounts included in interest expense	-	(43,189)	(43,189)
- Actuarial loss from change in financial assumptions	54,891	-	54,891
- Experience loss	73,564	-	73,564
	128,455	(43,189)	85,266
Other:			
Benefits paid	(181,975)	181,975	-
At 31 December 2019	403,435	(600,252)	(196,817)

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

The principal assumptions the Company used are as follows:

	As at 31 December	
	2019	2018
Discount rate per annum	10.10%	11.70%
Annual salary increment rate	10.25%	10.25%

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

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

13. EMPLOYMENT BENEFITS (CONTD.)

	Impact on defined benefit obligation 2019		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(35,805)	41,642
Annual salary increment rate	1.00%	41,194	(36,075)

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

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

14. INVENTORIES

	As at 31 December	
	2019	2018
Raw materials	2,197,116	1,832,550
Work-in-progress	55,864	36,017
Finished goods	271,147	304,242
Consumables	319,061	244,125
Provision for obsolete and slow moving inventories	(113,739)	(82,815)
	2,729,449	2,334,119

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

15. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019	2018
Current		
Trade receivables	2,486,169	1,992,168
Receivables from related parties [Note 25 (iii)]	34,301	110,986
Advances to farmers	192,360	89,943
Staff loans	109,803	104,642
Other receivables	89,728	2,109
Less: provision for impairment of receivables	(113,385)	(57,886)
	2,798,976	2,241,962
Non-current		
Receivables (Staff loans)	116,152	122,292
Total trade and other receivables	2,915,128	2,364,254

- (i) Trade receivables wholly consist of amounts receivable from distributors. No specific impairment indicators were noted as all receivables are less than 12 months.
- (ii) Provision for doubtful debts has been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.

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

	As at 31 December	
	2019	2018
Trade receivables	2,486,169	1,992,168
Receivables from related parties	34,301	110,986
Advances to farmers	192,360	89,943
Staff loans	225,955	226,934
Other receivables	89,728	2,109
Less: provision for impairment of receivables	(113,385)	(57,886)
	2,915,128	2,364,254

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

15. TRADE AND OTHER RECEIVABLES (CONTD.)

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

	As at 31 December	
	2019	2018
At 1 January	57,886	43,111
Provision for the period	66,727	16,898
Write-offs during the period	(9,426)	(1,971)
Reversals during the period	(1,802)	(152)
At 31 December	113,385	57,886

16. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2019	2018
Cash at bank and in hand	9,832,759	11,152,563
Short term investments	7,012,472	9,000,000
Cash and cash equivalents in the statement of cash flows	16,845,231	20,152,563

17. STATED CAPITAL

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

All issued ordinary shares are fully paid.

18. DEFERRED TAX LIABILITIES

Deferred tax is recognised in respect of all temporary differences under liability method using the effective tax rate.

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

	As at 31 December	
	2019	2018
At beginning of the year	562,005	507,200
Charge for the year	34,831	54,805
At end of the year	596,836	562,005

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

	Property, plant and equipment	Unfunded defined benefit obligation	Total
Balance as at 1 January 2018	(507,407)	207	(507,200)
Recognised in profit or loss	(54,678)	(127)	(54,805)
At 31 December 2018	(562,085)	80	(562,005)
Balance as at 1 January 2019	(562,085)	80	(562,005)
Recognised in profit or loss	(34,816)	(15)	(34,831)
At 31 December 2019	(596,901)	65	(596,836)

19. TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
Trade payables	778,742	722,886
Payable to related parties [Note 25 (iii)]	449,247	636,811
Accrued expenses	3,766,242	3,411,635
Other payables incl. government levies	5,686,602	7,866,765
	10,680,833	12,638,097

20. DIVIDENDS PAYABLE

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

	As at 31 December	
	2019	2018
At 1 January	3,813,823	3,278,165
Dividends declared [Note (c)]	17,939,996	16,259,701
Dividends paid	(17,932,140)	(15,623,714)
Transfers to unclaimed dividend [Note (b)]	(75,204)	(100,329)
At 31 December	3,746,475	3,813,823

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

20. DIVIDENDS PAYABLE (CONTD.)

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

	As at 31 December	
	2019	2018
At 1 January	285,148	209,976
Transfers	75,204	100,329
Payments	(3,690)	(2,228)
Write back	(29,771)	(22,929)
At 31 December	326,891	285,148

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

	2019		2018	
	per share	Rs.	per share	Rs.
Final dividend for prior year	15.77	2,954,096	11.80	2,210,420
First interim dividend	19.00	3,559,151	18.00	3,371,828
Second interim dividend	20.00	3,746,475	19.00	3,559,151
Third interim dividend	21.00	3,933,799	19.00	3,559,151
Fourth interim dividend	20.00	3,746,475	19.00	3,559,151
	95.77	17,939,996	86.80	16,259,701

21. LEASES

The Company leases vehicles and information about leases for which the Company has recognised a right-of-use asset and lease liability is presented below.

(a) Right-of-use assets

	2019
Recognition of right-of-use assets on 1 January	313,916
Depreciation charge for the year	(107,301)
Balance as at 31 December	206,615

(b) Lease liabilities

	2019
Recognition of lease liability on 1 January	313,916
Interest expense	32,257
Payment of lease liabilities	(126,952)
Balance as at 31 December	219,221
Maturity analysis - contractual undiscounted cash flows	
Less than one year	119,324
One to five years	129,951
More than five years	-
Total undiscounted liabilities as at 31 December	249,275
Lease liabilities included in the statement of financial position as at 31 December	
Current	99,811
Non-current	119,410

(c) Amounts recognised in profit or loss

	2019
Interest on lease liabilities	32,257
Expense relating to short term leases	38,329

(d) Amounts recognised in statement of cash flows

	2019
Total cash outflow for leases	126,952

22. CONTINGENT LIABILITIES

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

- (a) Rs. 500 Mn (2018 - Rs. 500 Mn) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing Licence) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 (as amended).
- (b) Shipping and Bank Guarantees have been issued amounting to Rs. 36.8 Mn (2018 - Rs. 26.9 Mn), for goods cleared before the arrival of original bank documents.
- (c) Outstanding litigation

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

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

23. 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.

24. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2019	2018
Profit before tax	28,690,844	27,476,813
Adjustments for:		
Depreciation [Note 11]	295,716	172,271
Amortisation of intangible assets [Note 12]	479	-
Write-offs	6,424	65
Interest expense [Note 8]	32,257	-
Interest income [Note 8]	(1,665,633)	(1,572,848)
Net interest on retirement benefit obligation [Note 13]	(6,495)	(31,046)
Provision for obsolete inventories and doubtful debts	86,423	18,071
Changes in working capital :		
- inventories	(426,254)	251,791
- receivables	(606,373)	(506,159)
- trade and other payables	(1,957,264)	297,741
Cash generated from operations	24,450,124	26,106,699

25. RELATED PARTY TRANSACTIONS

Transactions with related parties

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

Non-recurrent related party transactions

Any non-recurrent related party transactions of which the aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2018 audited financial statements requires additional disclosures in the 2019 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with related party that exceeds the specified thresholds.

Recurrent related party transactions

Any recurrent related party transactions of which the aggregate value exceeds 10% of revenue of the Company as per 31 December 2018 audited financial statements requires additional disclosures in the 2019 Annual Report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Security Exchange Commission Directive issued under Section 13(c) of the Security Exchange Commission Act. However, Ceylon Tobacco Company PLC has not entered into any transaction with a related party that exceeds the specified thresholds.

The following transactions were carried out with related parties:

(i) Sale of goods / services

	Year ended 31 December	
	2019	2018
British American Shared Services (GSD) Limited	44,298	60,813
BAT Sales and MKT Singapore	-	831
BAT Marketing (Singapore) Private Limited	-	34,063
British-American Tobacco (Singapore) Pte Ltd	-	4,166
British American Tobacco Asia-Pacific Region Ltd	-	2,586
British American Tobacco Myanmar Limited	720	951
Pakistan Tobacco Co Ltd	-	225
British American Tobacco ME DMCC	-	5,441
VINA-BAT JV HCMC Branch	728	1,529
British American Tobacco (Malaysia) Berhad	4,134	3,374
BAT (Holdings) Limited	31,868	22,103
BAT AsPac Service Centre Sdn Bhd	741	666
BAT Investments LTD	16,736	58,051
British American Tobacco (GLP) Limited.	1,890	1,809
Benson & Hedges (Overseas) Limited	104	-
	101,219	196,608

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

25. RELATED PARTY TRANSACTIONS (CONTD.)

(ii) Purchase of goods / services

	Year ended 31 December	
	2019	2018
BAT AsPac Service Centre Sdn Bhd	220,105	172,540
BAT Investments Limited	496,904	638,589
Benson & Hedges (Overseas) Limited	7,543	7,898
BAT Asia Pacific Region Limited	-	12,752
BAT (Holdings) Limited	351,487	254,903
British American Shared Services (GSD) Limited	639,783	597,144
BAT SAA Service (Private) Limited	39,828	70,557
BAT Australia Ltd	-	4,418
PT Bentoel Internasional Investama Tbk.	-	969
BAT Germany GMBH	-	867
BAT Souza Cruz S.A	-	6,083
BAT Switzerland S.A.	-	152
BAT Pecsí Dohánygyár KFT	224	588
British-American Tobacco Polska S.A.	-	254
British American Tobacco Kenya Ltd	666	84
British American Tobacco Mexico S.A. de C.V.	-	9,846
British-American Tobacco (Singapore) Pte Ltd	122,179	114,473
PT Bentoel Prima	2,070	2,109
British American Tobacco (Cambodia) Ltd	14,128	-
British American Tobacco Argentina	9,616	-
BAT Nigeria Ltd	659	-
Pakistan Tobacco Company Limited	210	-
British American Tobacco Tutun	1,231	-
BAT Romania Investment	502	-
	1,907,135	1,894,226

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

	As at 31 December	
	2019	2018
Receivable from related parties [Note 15]		
BAT (Holdings) Limited	18,219	17,632
BAT Investments LTD	-	51,352
BAT Marketing (Singapore) Private Limited	6,665	-
British American Tobacco Asia-Pacific Region Ltd	1,897	2,683
British-American Tobacco (Singapore) Pte Ltd	2,402	4,193
British American Tobacco (GLP) Limited	1,879	1,850
British American Tobacco ME DMCC	-	5,883
VINA-BAT JV HCMC Branch	1,549	1,562
BAT AsPac Service Centre Sdn Bhd	747	683
British American Shared Services (GSD) Limited	-	24,909
Pakistan Tobacco Company Limited	157	239
British American Tobacco Myanmar Li	786	-
	34,301	110,986

NOTES TO THE FINANCIAL STATEMENTS

(all amounts in Sri Lanka Rupees thousands)

25. RELATED PARTY TRANSACTIONS (CONTD.)

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

	As at 31 December	
	2019	2018
Payable to related parties [Note 19]		
BAT Investments Limited	17,831	308,918
BAT ASPAC Service Centre Sdn Bhd	18,527	41,557
BAT (Holdings) Limited	274,240	70,635
British American Shared Services (GSD) Limited	34,749	122,780
Benson & Hedges (Overseas) Limited	4,064	1,448
BAT (Germany) GmbH	1,092	1,121
BAT Australia Limited	-	550
BAT Korea Manufacturing Limited	-	692
British-American Tobacco (Singapore) Pte Ltd	55,528	53,174
BAT Switzerland S.A.	80	160
British American Tobacco Mexico S.A. de C.V.	11,035	10,698
BAT Pecsí Dohánygyár KFT	831	629
British American Tobacco Kenya Ltd	763	84
British-American Tobacco Polska S.A.	264	271
PT Bentoel Prima	3,657	1,579
BAT SAA Service (Private) Ltd	13	22,515
British American Tobacco Argentina	9,616	-
British American Tobacco (Cambodia) Ltd	14,510	-
BAT Nigeria Ltd	674	-
BAT Romania Investment	517	-
British American Tobacco Tutun	1,256	-
	449,247	636,811

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

(iv) Key management compensation

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

	Year ended 31 December	
	2019	2018
Salaries and other short-term employee benefits	272,789	278,133
Terminal benefit payments	150,556	-
Share based payments	15,899	3,706

(v) Post-employment benefits

	Year ended 31 December	
	2019	2018
Ceylon Tobacco Company PLC Group Provident Fund	74,153	65,163

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

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

As at 31 December 2019, the fair value of the phantom shares granted was Rs. 9.0 million (2018 - Rs. 16.1 million).

26. EVENTS AFTER THE REPORTING PERIOD

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

Dividends:

The Directors recommended a final dividend of Rs.12.13 per share for 2019. The final dividend is subject to the approval of the shareholders at the Annual General Meeting to be held on 29 June 2020.

Once approved by the shareholders, the final dividend will be payable on 8 July 2020.

STATEMENT OF VALUE ADDED

(all amounts in Sri Lanka Rupees thousands)

	Year ended 31 December	
	2019	2018
Turnover	141,341,887	145,298,290
Supplied material and services	(6,762,884)	(5,481,281)
Net interest income	1,633,376	1,572,848
Other operating income	70,093	80,958
	136,282,472	141,470,815
State	117,250,088	122,840,225
Shareholders	17,939,996	16,259,701
Employees	1,477,244	1,453,971
Depreciation and amortisation	296,195	172,271
Value retained / (distributed) in business through profit earned	(681,051)	744,647
	136,282,472	141,470,815

SHARE INFORMATION

Ordinary Shareholding

Stated Capital - Rs. million	1,873
Number of shares representing the Entity's stated capital	187,323,751
Number of Shareholders as at 31 December 2019	3,472
Number of Shareholders as at 31 December 2018	3,270

Categorisation of Shareholding

Shareholding Range	Resident			Non Resident		Total		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	%	No. of Shareholders	No. of Shares	%
1-1000	2,494	500,876	0.27	33	0.01	2,527	510,782	0.28
1001-10,000	788	2,271,047	1.21	39	0.09	827	2,433,650	1.3
10,001-100,000	72	1,865,421	0.99	23	0.45	95	2,702,504	1.14
100,001-1,000,000	3	524,730	0.27	15	2.25	18	4,736,486	2.52
Over 1,000,000	-	-	-	5	94.46	5	176,940,329	94.46
Total	3,357	5,162,074	2.74	115	97.26	3,472	187,323,751	100

Computation % of Public Shareholding

	No. of Shares As at 31 December	
	2019	2018
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors shareholding (including spouses & children)		
Mr. W F Pegel	-	-
Mr. N L Salem	-	-
Ms. A Mustafiz	-	-
Mr. Y Kanagasabai	-	-
Mr. K M A T Tittawella	-	-
Mr. U Zahur	-	-
	-	-
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors shareholding (including spouses & children)	-	-
Public Holding	29,732,820	29,732,820
	187,323,751	187,323,751
Public Holding as a % of Issued Share Capital	15.87%	15.87%
Number of shareholders holding the Public Holding	3,471	3,269
Market Capitalisation of Public Holding (Rs. million)	32,751	42,072

SHARE INFORMATION

(all amounts in Sri Lanka Rupees thousands)

	No. of Shares	%	No. of Shareholders	%
Individuals	5,191,683	2.78	3,280	95.11
Institutions	182,132,068	97.22	192	4.89
	187,323,751	100.00	3,472	100.00

CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

	2019	2018
No. of share transactions for the year	1,414	1,868
No. of shares traded	2,302,018	1,300,428
Price Movements (Rs.)		
Highest	1,239.00	1,500.00
Lowest	1,045.00	1,350.00
Closing Price	1,100.30	1,415.00
Market Capitalisation (Rs. million)	206,112	265,063

20 largest Shareholders

	31-Dec-19		31-Dec-18	
	No. of Shares	%	No. of Shares	%
1 British American Tobacco International Holdings BV	157,590,931	84.13	157,590,931	84.13
2 Philip Morris Brand SARL	15,585,910	8.32	15,585,910	8.32
3 Pershing LLC S/A Averbach Grauson & Co.	1,605,009	0.86	1,936,731	1.03
4 Northen Trust Company S/A - Fundsmith Emerging Equities Trust PLC	1,092,645	0.58	1,092,645	0.58
5 CB NY S/A Allan Gray Frontier Markets Equity Fund Limited	1,065,834	0.57		
6 RBC Investor Services Bank-COELI SICAV	794,813	0.42	878,756	0.47
7 SSBT-BMO Investments 11 (Ireland) Public Limited Company	710,489	0.38	1,295,275	0.69
8 SSBT-AL MEHWAR COMMERCIAL INVESTMENTS L.L.C	493,258	0.26	405,258	0.22
9 BBH-Matthews Emergine Asia Fund	361,292	0.19	361,292	0.19
10 Mrs. Jasbinderjit Kaur Piara Singh	312,063	0.17	312,063	0.17
11 J.B.Cocoshell (Pvt) Ltd	246,724	0.13		
12 Miss Neesha Harnam	225,780	0.12	225,821	0.12
13 SSBT-Frank Russel Trust Company Comingled Benefit Fund Trust GNA	200,124	0.11	200,124	0.11
14 HSBC INTL NOM Ltd - SSBT-BMO-LGM Frontier Markets Equity Fund	197,692	0.11	244,387	0.13
15 HSBC INTL NOM Ltd - SSBT-Deutsche Bank AG Singapore A/C 01	175,600	0.09	175,600	0.09
16 Harnam Holdings SDN BHD	150,000	0.08	150,000	0.08
17 Bank of Ceylon No 1 Account	143,175	0.08	143,177	0.08
18 Deutsche Bank AG AS Trustee For JB vantage Value Equity Fund	134,831	0.07		
19 BNYM RE- GHI Holdings Mauritius	129,687	0.07		
20 Mellon Bank N.A-Eaton Vance Trust Co.Collective Inv.	126,600	0.07	148,901	0.08
HSBC INTL NOM LTD-BBH-Matthews Emerging Asia Fund			361,292	0.19
HSBC INTL NOM LTD-JPMCB-Long Term Economic Investment Fund			339,568	0.18
HSBC INTL NOM LTD-SSBT Frank Russel Trust Company			200,124	0.11
Mr. Prabhash Subasinghe			171,038	0.09
AYENKA HOLDINGS PRIVATE LIMITED			164,367	0.09
PICTET and CIE (Europe) SA S/A Lloyd George Indian Ocean Master Fund			160,000	0.09
HSBC INTL NOM LTD-State Street London			1,092,645	0.58
Northen Trust Company S/A - Coupland Cardiff Funds PLC			296,285	0.16
HSBC INTL NOM LTD-JPMCB-Coronation Global Frontiers Master fund			203,352	0.11
HSBC INTL NOM LTD-JPMCB-New Emerging Markets			150,615	0.08
Sub Total	181,342,457	96.81	181,126,649	96.69
Others	5,741,907	3.19	6,197,102	3.31
Total Shares	187,323,751	100.00	187,323,751	100.00

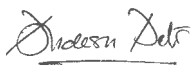
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NOTICE OF MEETING

NOTICE IS HEREBY given that the Eighty Ninth Annual General Meeting of Ceylon Tobacco Company PLC will be held as a virtual meeting using a digital platform from Ceylon Tobacco Company PLC, No. 178, Srimath Ramanathan Mawatha, Colombo 15, on Monday, 29 June 2020 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 2019 and the Report of the Auditors thereon.
- (ii) To declare a Final Dividend for 2019.
- (iii) To re-elect the following Directors.
 - ⊙ To re-elect as Director, Mr. Anil Tittawella, who retires by rotation in terms of the Articles of Association of the Company.
 - ⊙ To re-elect as Director, Mr. Yudhishtan Kanagasabai, who retires by rotation in terms of the Articles of Association of the Company.
 - ⊙ To re-elect as Director, Mr. Nedal Salem, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
 - ⊙ To re-elect as Director, Mr. Usman Zahur, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
 - ⊙ To re-elect as Director, Mr. William Pegel, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.
- (iv) To authorise the Directors to determine and make donations.
- (v) To re-appoint Messrs. KPMG as the Company's Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board



Sudesh Peter
Company Secretary

14 May 2020

AGM 2020 INSTRUCTIONS TO SHAREHOLDERS

In order to comply with the measures imposed by the Sri Lankan Government on account of the Covid-19 pandemic and to ensure the health and safety of our shareholders, employees and management, the Directors of the Company have decided that the Company's Annual General Meeting for 2020 ("AGM") will be convened as a virtual meeting using a digital platform. This is in line with the directions given by the Colombo Stock Exchange and noted by the Registrar of Companies.

Shareholders may attend the meeting virtually and if they are unable to so attend, they may exercise their vote by appointing a proxy in the form of the template provided in the Annual Report. In order to ensure the smooth functioning of the AGM in this novel manner via a digital platform, shareholders are encouraged to authorize an Independent Director as proxy to attend and vote at the AGM on their behalf.

Shareholder prior registration and verification

In order for a shareholder or proxy to attend the AGM virtually, the following must be shared via email or post to reach the Company not later than 5 pm on Tuesday 23rd June 2020 (**Deadline**):

- ⊙ Shareholder's Full Name
- ⊙ Shareholder's NIC / Passport number
- ⊙ Shareholder's CDS number if any
- ⊙ Shareholder's phone number (preferably mobile number registered in the name of the shareholder); and
- ⊙ Shareholder's email address
- ⊙ In the case of a Corporate Member the duly completed Form of Proxy must be submitted.

You can share the above details with the Company in the following manner:

- ⊙ By emailing CTCAGM2020@bat.com; or
- ⊙ By post to: The Assistant Company Secretary, Ceylon Tobacco Company PLC, 178, Srimath Ramanathan Mawatha, Colombo 15

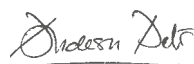
Any incomplete details or details shared past the Deadline will not be accepted under any circumstances, and so in order to attend the AGM we request you to oblige with the deadline strictly.

Once all required information has been received, reviewed and verified by the Company, you will receive details of the virtual meeting link with all necessary instructions to join the AGM using a computer or smartphone having internet access. Shareholders who are unable to provide an email address, may join the meeting via the phone by a mobile which is registered in the name of the shareholder. Only shareholders and proxies whose details have been verified will be allowed to attend the AGM via the link provided. The Company reserves the right to deny access to the meeting to any person who fails to register and/or be verified as an active shareholder of the Company.

Shareholder participation via questions, comments and suggestions prior to the AGM

Shareholders may submit questions, comments or suggestions relating to the business of the AGM, directly to the Company by email to CTCAGM2020@bat.com by 5 pm on Tuesday 23rd June 2020 for them to be addressed at the AGM. Only those questions, comments or suggestions will be discussed at the AGM which have been received on the aforesaid email address latest by the said date and time. Kindly note that no questions, comments or suggestion will be entertained during the meeting to ensure the smooth running of the AGM in this novel manner via a digital platform.

Please note that this is not a public event and therefore recording or publishing this event in full or in part without the prior written consent of the Company is strictly prohibited and those who violate these instructions will be reported to Law enforcement authorities.



Sudesh Peter
Company Secretary

14 May 2020

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

Mr. William Pegel	whom failing
Mr. Nedal Salem	whom failing
Ms. Amun Mustafiz	whom failing
Mr. Usman Zahur	whom failing
Mr. Yudhishtan Kanagasabai	whom failing
Mr. Anil Tittawella	

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 Monday, 29th June 2020 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 2019.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend for 2019.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect as Director, Mr. Anil Tittawella, who retires by rotation in terms of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect as Director, Mr. Yudhishtan Kanagasabai, who retires by rotation in terms of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect as Director, Mr. Nedal Salem, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect as Director, Mr. Usman Zahur, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To re-elect as Director, Mr. William Pegel, who was appointed since the last Annual General Meeting and comes up for re-election under the Articles of Associations of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(ix) To appoint Messrs. KPMG as the Company's Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

.....
 Signature

Signed this day of Two Thousand and Twenty.

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

FORM OF PROXY

Instructions as to completion :

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to a resolution or make any statement in regard thereto on behalf of any Shareholder.
2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.
3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution. If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he/she thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If the Form of Proxy is signed by an Attorney, the relevant Power-of-Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No.178, Srimath Ramanathan Mawatha, Colombo15, Sri Lanka or email: CTCAGM2020@bat.com not later than 5pm on Tuesday 23rd June 2020.
7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

APPENDICES



ENVIRONMENTAL POLICY STATEMENT

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

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

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

Agriculture

We are committed to:

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

Operations and Trade

We are committed to:

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

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

Nedal Salem

Managing Director and CEO
Ceylon Tobacco Company PLC
04 July 2019

APPENDICES



SUSTAINABLE TOBACCO PROGRAMME (STP) POLICY

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

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

Nedal Salem
Managing Director and CEO
Ceylon Tobacco Company PLC
09 May 2019



BIODIVERSITY STATEMENT

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

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

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

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

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

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

Nedal Salem
Managing Director and CEO
Ceylon Tobacco Company PLC
08 April 2019

APPENDICES



HEALTH & SAFETY POLICY STATEMENT

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

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

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

Nedal Salem
Managing Director and CEO
Ceylon Tobacco Company PLC
04 July 2019

CORPORATE INFORMATION

NAME OF THE COMPANY

Ceylon Tobacco Company PLC
Reg. No. PQ 29

REGISTERED OFFICE

178, Srimath Ramanathan Mawatha,
Colombo 15

LEGAL FORM

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

REGISTRARS

SSP Corporate Services (Private) Limited

LEGAL ADVISORS

Sudath Perera Associates

Attorneys-at-Law

Messrs. Julius & Creasy

Attorneys-at-Law

Messrs. FJ & G De Saram

Attorneys-at-Law

AUDITOR

Messrs. KPMG Chartered Accountants

BANKERS

Commercial Bank of Ceylon PLC

Citibank NA

Deutsche Bank AG

HSBC

People's Bank

Standard Chartered Bank

HOLDING COMPANY

British American Tobacco PLC through

British American Tobacco International Holdings BV

Designed & produced by

emagewise

Printed by Printel (Pvt) Ltd

Photography by Danush de costa and Taprobane Street



**CEYLON TOBACCO
COMPANY**

A member of the British American Tobacco Group