

People.



Productivity.

People. Productivity.

Productivity. It's written into our corporate DNA. This year, by significantly enhancing our drive towards optimum productivity, we have achieved yet another set of fine results. And we're proud to give full credit for this to our staff - every employee at every level, our talented and professional team.

We believe business is about people.
Every day, we reach out to a wide range of
Sri Lankan communities, from farmers and
families to end consumers islandwide.
We shall continue to serve them all with
the same focus on productivity,
responsibility and value creation
of being true to our vision. To be an
inspiration for corporate Excellence
in Sri Lanka.



**CEYLON TOBACCO
COMPANY**

A member of the British American Tobacco Group



People. Productivity.

Our Corporate Philosophy

Vision

To be the Inspiration for Corporate Excellence in Sri Lanka

Values

Open mindedness

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

Strength from diversity

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

Freedom through responsibility

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

Enterprising spirit

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

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Financial Highlights

	2008 Rs. Mn.	2007 Rs. Mn.
Gross Turnover (Including VAT)	54,763	46,827
Government Levies	43,583	38,116
Net Turnover	11,180	8,711
Operating profit	4,170	2,809
Profit before Tax	4,615	3,094
Profit after Tax	2,761	1,894
Net Assets	2,676	2,262
Interim Dividends	2,351	1,798
Proposed Final Dividends (to be approved at the Annual General Meeting)	399	-
Total Value Added	52,643	44,822
Group Employment	308	323
Investments	136	260
Market Capitalisation	12,363	9,975
Value Added per Employee	171	139
Per Share (Rs.)		
Market Value	66.00	53.25
Net Assets	14.29	12.08
Earnings	14.74	10.11
Dividends (Interim and proposed Final Dividend)	14.68	9.60



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Milestones

2008

Dunhill Manufacturing localization
ACCA Award for Sustainability Reporting
“Business Today” Top Ten Company
Platinum Status for Corporate Governance (Inaugural Award)
Highest ever productivity gains

2007

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

2006

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

2005

Launch of Dunhill cigars, ACCA award for CSR reporting
SAFA award for Annual Report 2004
One of the Top Ten Corporate Citizens in Sri Lanka (CCC)
‘Business Today’ Top Ten Company

2004

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

2003

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

2002

First Social Report in Sri Lanka published by CTC
‘Business Today’ Top Ten Company

2001

MRP II Class ‘A’ Award version 5 of Oliver Wight Checklist - First in the World,
Re-launch of Three Roses and Four Aces cigarettes
‘Business Today’ Top Ten Company

1999

MRP II Class ‘A’ Award version 4 of Oliver Wight Checklist
‘Business Today’ Top Ten Company

1998

National Quality Award
‘Business Today’ Top Ten Company

1997

WorldAware Award for Sloping Agriculture Land Technology

1996

First tobacco Company in the world to switch over to alternative fuel for the curing of tobacco by using paddy husk, which is a waste material, CTC’s afforestation blocks were adjudged the best man-made forests in Sri Lanka,
National Productivity Award,
Launch of B & H cigarettes

○ 1995

CTC won the Award by the Institute of Chartered Accountants of Sri Lanka for the Best Annual Report in the Food & Beverage Sector, followed by awards in 1996, 1997, 1998, 1999, 2000, 2002, 2003, 2004, 2005 & 2006

○ 1994

Head Office and Factory merged into one site in Colombo

○ 1981

Formation of the Board Audit Committee

○ 1965

Launch of John Player Gold Leaf cigarettes

○ 1954

CTC was listed as a Public Limited Liability Company

○ 1952

Growing of tobacco by CTC started in Sri Lanka

○ 1948

Launch of Bristol cigarettes

○ 1932

CTC was incorporated in Sri Lanka

○ 1927

BAT opened its first factory in Colombo

○ 1906

BAT opened its first branch in Colombo



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“As an important and respected company in Sri Lanka, we believe that it is our bound duty to identify the wider purpose and the national benefit we seek from our actions as a tobacco Company.”

Chairman's Statement

"We are pleased to announce the good returns your company has recorded in 2008 in what has been an economically turbulent year."

As your new Chairman, it is indeed my privilege to present the Annual Report and Audited Accounts of Ceylon Tobacco Company for the year 2008 - the first under my tenure. Your Company has yet again completed an exemplary financial year and I take this opportunity to explain to you the wider purpose that we have served and aim to serve through specific activities undertaken in 2008. As an important and respected company in Sri Lanka, we believe that it is our bound duty to identify the wider purpose and the national benefit we seek from our actions as a tobacco Company.

We are pleased to announce the good returns your company has recorded in 2008 in what has been an economically turbulent year.

The financial meltdown facing the world today is an unavoidable reality and as in the rest of the world, we too as a nation, will face the fallout of this global turmoil. The full implications of these challenges will confront the country from 2009 and may continue into the following year. Hence the expectation for increased national revenue is a realistic assumption which is factored into all operational plans of the company. The company's contribution in 2008 amounted to Rs 50 billion, 7.8% of state revenue and 2.1% of national GDP.

From another, more positive perspective, Sri Lanka is uniquely placed; while threats effect all nations, we have the real possibility to bring the conflict in our country to an end and move forward on the path to national prosperity. This nation in a sense was economically divided - with the two parts not connected in terms of progress, due to a traumatic, 25 year conflict. Therefore, we will now have a real opportunity to invest in those regions and develop particularly its agriculture, tourism, fisheries and build infrastructure. Though these areas are somewhat depressed currently, they present the greatest potential for accelerated development. This is a unique prospect which no doubt will help the Government to ensure economic growth despite the down turn in global markets.

As a nation, no sector of our society should fail to seize this opportunity for nation building. To ensure that we succeed we need a peaceful environment, social equity and democratic values that we can be proud of. These will be the foundation necessary for sustainable economic growth through greater investments and the reactivation of many dormant sectors, thus realising the full potential of our country.

The tobacco market in Sri Lanka is not a growth market as is the case with the rest of the world. Prices of cigarettes being substantially higher in our country than in the neighboring countries and much beyond, is contributing to this decline. This has deterred the consumption of legal tobacco products. To maintain the success of your company, we have over the years focused on productivity, which at first was seen as controversial, but has now become a necessity for survival, in several sectors of our economy. In 2008 your company was able to reap the benefits of some of the bold initiatives taken in the past on the productivity front.

Our culture of continuous improvement has brought us to the top end for productivity for operations of our size and complexity, in the British American Tobacco group, globally. It is not just about productivity for us alone, but for all our stakeholders, employees, distributors and trade. We don't journey ahead alone - we take our partners with us. Therefore the biggest task has been to educate them on the importance of productivity and its need to meet the challenges and how such a drive will benefit all of them and the national economy. Due to this approach on our part, there has been no conflict and our efforts, have been an overall success. As



Chairman's Statement

strategic partners, our stakeholders continue to help the business to undergo this transformation. To that end, we can claim to have lead from the front and inspired others to do so in line with our vision of corporate excellence.

Further strengthening the company's Corporate Social Responsibility initiative and our commitment to develop the potential of the conflict-affected areas, a major project is planned to get underway in the Eastern Province; expanding the work already done in several parts of the country through the Sustainable Agriculture Development Project (SADP). A Foundation to oversee projects such as this has been established with adequate funds allocated. Keeping in line with our vision, yet again, we aim to be an inspiration for others, and hope they too would join in and promote development in the former conflict affected areas as a national priority.

Tobacco has and will be a controversial subject. We have understood that our products need to be marketed to our consumers in a responsible manner, in line with the regulations. It is unfortunate that the National Authority on Tobacco and Alcohol (NATA) is reluctant to maintain a direct dialogue with the concerned industries. We therefore keep in tune with public expectations through our social reporting program. We have always maintained high standards and voluntarily regulated our operations, even before the restrictions on our industry were contemplated. From the outset, self-regulation has been a guiding principle of operation in your

company. We have always endeavored to be a responsible corporate citizen - and one who works in partnership with the regulatory bodies. Misinterpretation unfortunately leading to unlawful arrests by enforcement authorities has caused confusion among the trade and consumers. Thereby, the biggest losses are suffered by the government, being the recipient of a significant part of revenue currently at 89 % of the Company revenue.

Our priority has always been to meet and manage the reasonable expectations of all our stakeholders - the government, shareholders, employees, suppliers and distribution and retail trade. We have taken the right actions to ensure that while the volumes of sales diminish, we continue to fulfill growing expectations of our major stakeholders. This situation however, has created an opportunity for the illicit sector to maximise on the escalating prices of our products. Although the authorities have done an excellent job to contain this illicit trade, the more we are compelled to increase our prices beyond the limits of affordability; the more we push our consumers towards illicit markets.

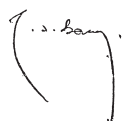
We continue to be one of the best performing share in the Colombo Stock Exchange in terms of yield on share price and for the year 2008, four interim dividends totalling Rs 12.55 per share being paid to the shareholders. A final dividend of Rs. 2.13 per share is proposed and once approved by shareholders will be paid on the 1st of April 2009.

We are committed to the highest standards of governance and the role of the board of directors in working towards this end cannot be over emphasised. There have been several changes to your Board in the year under review. We bid farewell to key members - Desamanya Ken Balendra our chairman of 5 years retired and so did Mr. Chandra Jayaratne who had a long tenure as a director, at the Annual General Meeting last year. These gentlemen made a tremendous contribution to CTC in different ways. Mr. Balendra offered commendable leadership through his personality, vast experience and human qualities. Mr. Jayaratne's contribution to board deliberations centred on governance, finance, tax and social responsibility. These different perspectives enriched the quality and content of deliberations in the context of guidance provided to the company. Mr. Sandeep de Alwis, our Finance Director since 2005 and a much esteemed member of our board, also moved on to take up a key position in the BAT Head Office in the United Kingdom. We thank them all for their loyalty, contribution and invaluable service to the company and wish them well in their future endeavours.

We also welcome two new members to our board. Mr. Ariyaratne Hewage who has wide experience in the public sector by holding several distinguished positions, such as the Secretary to many important ministries. His contribution towards helping us improve public sector relations will be most valued - especially in CSR and government relations.

Mr. Bruce Jalleh joins us from British American Tobacco Malaysia. He has held several senior Finance positions in Malaysia, ASEAN and Korea. His extensive experience in the field of Finance will definitely be an asset to CTC.

I take this opportunity to thank the board and the management team for their tremendous contribution and importantly for being well aligned with the corporate vision. I thank all employees led by the CEO/Managing Director and the valued business partners for the excellent results achieved. We look forward to the New Year with renewed hope and confidence. As our foundations are strong, I am also confident that we will deliver the expectations of our stakeholders, despite the global turmoil by taking advantage of the opportunities ahead.



Jayampathi Bandaranayake
Chairman

30th January 2009



People. Productivity.



“Ceylon Tobacco Company (CTC) stands strong for 77 years in Sri Lanka with a legacy of corporate excellence. Over the years CTC has demonstrated its capability to deliver on all stakeholder expectations whilst maintaining global standards working as a local company.”

Chief Executive Officer's Statement

"At CTC we continue to evolve by looking beyond and ensuring that we keep our journey of productivity"

Ceylon Tobacco Company (CTC) stands strong for 77 years in Sri Lanka with a legacy of corporate excellence. I am proud to have been a part of your dynamic company since . Over the years CTC has demonstrated its capability to deliver on all stakeholder expectations whilst maintaining global standards working as a local company. This has been our recipe for success throughout the years and will be our strength going forward.

Our Successes in 2008 come in the wake of many challenges, both locally and globally with crippling economies unfolding a myriad of change. At CTC change has been a constant and this has helped us to remain strong and sustain our position as leaders in the tobacco industry of Sri Lanka. We continue to inspire other Corporates in all aspects of our business, living our vision "To be the inspiration for corporate excellence in Sri Lanka".

Your Company continued to conclude a strong financial year, as a result of a number of productivity initiatives brining in benefits at a most challenging time. Over the years, by significantly enhancing our drive towards optimum productivity, we have achieved yet another set of fine results. Productivity gains coupled up with bold and

innovative rationalization of our Distributor network ensured that CTC stood strong to enjoy profit growth in 2008.

2008 saw continued reduction in our overall sales volume, however, the sales revenue grew significantly. This was primarily driven by pricing and a reduction in incidence of duty evaded / smuggled products with a staggering 740 raids carried out by law enforcement authorities. Consequently, government levies and taxes grew by Rs. 8.3 billion in 2008 which was almost doubled than the growth in 2007 of Rs. 5.0 billion, further solidifying our position as one of the biggest earners for the state. We contributed 50 billion rupees to the government in form of excise, levies and taxes.

At CTC we continue to evolve by looking beyond and ensuring that we keep our journey of productivity. We unfold this report for 2008, with a firm commitment that your company will continue this journey to remain a leading corporate in Sri Lanka true to our aspiration to be the inspiration for corporate excellence in Sri Lanka.

A Supply Chain delivering more

Always a step ahead on the productivity drive, we continued with our aggressive

drive to localize raw material inputs (such as printed material). This has benefited both CTC and the local suppliers. Localisation of our print material a project initiated 2 years ago not only brought in better returns to the company, but ensured the development of the local industry. On the manufacturing front, we continue to lead the way by being one of the most productive factories.

We are happy to state that we achieved near self sufficiency in the focus areas. The concentrated effort of 2007 on increased productivity in the areas of supply chain, raw material, procurement and manufacturing also made a bigger and positive financial impact in 2008.

Distributing Value to Trade

We took an innovative and bold productivity enhancement approach towards our sales and distribution model last year. Pre-empting high inflationary led price rises which would generate huge trade liquidity issues impacting the ability to fund the business, our approach was to consolidate the distributor network, enhance the direct sales coverage and double the service frequency. This way we significantly grew profitability of directly serviced retailers, valued business partners and in



Chief Executive Officer's Statement

turn CTC greatly benefited. In essence, our ability to plan first and make things fast gave us a huge business benefit in 2008.

Enriched Brand Portfolio: More choice, more value.

In 2008 we enriched our brand portfolio and added more choice and value in the market. With prices of cigarettes in Sri Lanka being one of the highest in Asia, we constantly strive to give our consumers value for money - value in terms of brands, quality and choice. With the same spirit, we reinvigorated our premium brand Dunhill and significantly expanded distribution. Having considered consumer feedback, we made the right changes to the product, pricing and brand support and the response has been encouraging both from the trade and consumers.

John Players Gold leaf remains a strong brand in the main stream category in Sri Lanka. With consumers demanding more choice, Pall Mall was introduced in 2007 and further strengthened during the financial year in review.

Complying with regulations

The tobacco & alcohol regulations that came into effect in 2006 covers all aspects of Ceylon Tobacco Company's business from restrictions on public place smoking, to prohibition of advertising, sponsorship and selling. The Tobacco legislation in Sri Lanka has been identified as one of the toughest legislations amongst many in the world, and contains some unique features not seen elsewhere.

In 2008 we further strengthened our controls and governance procedures to ensure that all our business activities were fully compliant to the letter and spirit of the law. As a responsible company we educated and increased the awareness levels of our business partners to ensure that they were compliant with regulations. In this regard we initiated an island wide comprehensive trade awareness campaign.

Despite continuous efforts taken by CTC to abide by the law, we await a concise message to be delivered to various regulatory authorities, without which, many consumers and traders continue to suffer due to the misinterpretation of the law. Since 2006 this has been a serious issue faced by the company and our business partners.

Reaching out to the nation - Corporate Social Responsibility

Our performance and effort in this area has been staggering. We focused our efforts single mindedly on our Sustainable Agriculture Development Program (SADP) initiative with more than doubling its scope with an increase from 1,600 families up to 3,578 families being apart of the program during 2008. The living conditions of these poverty stricken families have positively improved on account of nutritional intake, self sufficiency, women empowerment and disposable income. Our ambitious target is to reach out to 10,000 families by 2010. Encouraged by the progress made in this project, we also embarked on an ambitious CSR plan in the Eastern Province, recognizing that

the development of the East is a National priority. We have already pledged the funds to support a further 4,000 families on the "SADP Plus" initiative which is based on a more elaborate model, where a lot more land is allocated for each family. These families will have the opportunity to grow crops like maize and Soya on a commercial scale thereby increasing their income capacity.

Whilst taking pride in our CSR endeavors, over the years CTC has ensured that corporate accountability and responsibility has become an integral part of our business and has robust processes in place to ensure compliance. The Platinum status award in the LMD inaugural Corporate Accountability Index survey further consolidated our efforts in the past and bears testimony to the best practices we have incorporated in our life blood of CTC.

Our people our strength

Last but by no mean the least, it's our team of highly motivated, energized and committed employees who made it all happen. Our employees grow with business and the business grows from strength to strength as a consequence. We have a wealth of talent and skills which has won global recognition not only within the British American Tobacco group but also among businesses in Sri Lanka. We're truly proud to have many Sri Lankans who hold high profile positions within the British American Tobacco network worldwide as well as many other businesses in Sri Lanka.

I take this opportunity to express my sincere gratitude to all our employees and the valued business partners; their passion, commitment to excellence, resourcefulness and above all the greater sense of being part of one great family made the business to overcome all the challenges in 2008 and yet produced excellent business results for the 77th time in 2008.

Enhanced Corporate Image

We continued to be adjudged among Top Ten Businesses in Sri Lanka, were accorded Platinum status on Corporate Accountability, won the prestigious Ceylon Chamber of Commerce - Best Corporate Citizen Award to be among Top Ten Corporates on CSR efforts. CTC bagged the most significant positive shift in Sri Lanka on Most Respected Business Entities Survey where we moved up 18 places to 16th position during 2008. These awards speak volumes of our corporate performance, reputation and accountability and the way we manage social obligations as well as obligations to our stakeholders. For a company operating in our business category, winning these accolades is truly exemplary and inspirational. It proves clearly that we're leading, in every aspect - yet again. We're proud to say that despite the tough times, we have taken innovative steps and timely actions; made the necessary changes to succeed over all.

Appreciation and Governance

We warmly welcome Jayampathi Bandaranayake who takes over duties as

our Chairman from Desamanya Ken Balendra. During his nine year eventful and highly successful tenure as a member of your Board, Mr. Balendra's visionary guidance saw CTC going through the one billion Rupee mark in profits - we're extremely grateful for his leadership and thank him for his foresighted and enterprising leadership. Our new Chairman, Mr. Bandaranayake, has been a part of the CTC family for 40 years - held in very high esteem and respect amongst stakeholders, business community and society at large. He has held and continues to hold directorships in many leading corporate in Sri Lanka and is at present the Chairman of the Ceylon Chamber of Commerce and a past Chairman of the Employer Federation of Ceylon. He strongly reflects our corporate vision to be the inspiration for corporate excellence in Sri Lanka.

We look ahead with confidence

CTC deep rooted with a century of international exposure and expertise balanced with the wealth of an in-depth understanding of the local market context and dynamics. This unique ability has helped our team to record a good financial performance for 2008 setting us on a sound footing for the year ahead and beyond.

While the global economic crisis poses many challenges ahead, Sri Lanka is much better placed compared to the more developed world. While CTC is better able to manage, we're far from immune with difficult conditions on the

rise. Once again our capacity to change will help us to be more efficient and productive and we're confident that your Company will be able to sail through 2009 in better shape than most other businesses.

Our outlook for 2009 therefore is full of challenges. We will not only make changes, but will capitalize on the changes that affect us and explore all avenues of opportunity for the benefit of all our stakeholders and our business. The intensive productivity drive we continue to carry through will benefit us in the year ahead and into the future.

In conclusion, it must be stressed that we're not impervious to the present economic environment, and see many challenges in our path; but we're highly confident that our people and our portfolio has the strength and impetus to pull through difficult times and bring in solid results, in a very responsible manner.



Mustanser Ali Khan
CEO

30th January 2009



People. Productivity.

Board of Directors

**Jayampathi
Bandaranayake**
Chairman



**Mustanser Ali
Khan**
CEO



Bruce Jalleh
Finance Director



**Vijaya
Malalasekera**



Desamanya Deva
Rodrigo



Susantha
Ratnayake



Mobasher Raza



Ariyaratne
Hewage





Board of Directors

Jayampathi Bandaranayake

LLB, FCIS, FIPM

A member of the Board of Directors of the company since March 1990. Since his retirement from executive office in July 2007 has held office as a Non Executive Director of the company and was appointed as Chairman in March 2008.

His other Directorships include Coca Cola Beverages Lanka Limited, Sampath Bank PLC, Finlays Colombo PLC, Hayleys PLC, Union Assurance PLC and Westcoast Power (Pvt) Ltd. He also serves on the Board of BOI Sri Lanka.

He was a past Chairman of the Employers Federation of Ceylon and is the current Chairman of the Ceylon Chamber of Commerce.

Mustanser Ali Khan

He was appointed to the Board of Directors of CTC on 24 September 2007 as Chief Executive Officer/Managing Director. Mustanser comes with a diverse international career with the British American Tobacco Group. He held the role of General Manager - Solomon Islands Tobacco and has also worked as Operations Director - British American Tobacco Indonesia.

Bruce Jalleh

FCA

He was appointed to the Board of Directors of CTC on 1 September 2008 as the Finance Director. He joined BAT Malaysia in December 2001 as the Head of Corporate Finance. He subsequently became the Head of ASEAN Audit covering BAT operations in ASEAN, Hong Kong and Taiwan. Prior to this appointment he was the Commercial Finance Manager in BAT Korea.

Vijaya Malalasekera

MA(Cantab), Barrister-at-Law (Inner Temple),
Attorney-at-Law

He joined CTC in October 1973. He was appointed as an Executive Director to the Board in January 1995 and since August 2005 he is a Non-Executive Director. He is currently the Chairman of Bogala Graphite Lanka PLC, Ascot Holdings PLC, Boston Capital (Pvt) Limited, Axis Financial Services (Pvt) Ltd, CKR Tea (Pvt) Limited, Fairway Condominiums (Pvt) Limited, Boston Asset Management (Pvt) Limited and MSH Packaging (Pvt) Limited. He also serves on the Boards of Carson Cumberbatch PLC, Brown and Company PLC, Taprobane Investments (Pvt) Limited, Galoya Holdings (Pvt) Limited, Taprobane Holdings Limited, Taprobane Securities (Pvt) Limited, Taprobane Plantations Limited, Taprobane Mutual Fund Limited, Taprobane Fund Management Limited and Lexinton Holding (Pvt) Limited.

Desamanya Deva Rodrigo

FCA

He was appointed to the Board of Directors of CTC in October 2006. He is the former Territory Senior Partner of PricewaterhouseCoopers Sri Lanka and Maldives and a former Chairman of the Ceylon Chamber of Commerce. He is currently a Non-Executive Director of John Keells Holdings Plc.

He has held many public appointments including those as a member of the Telecommunications Regulatory Commission, Presidential Commission on Trade and Tariff and the Monetary Board of the Central Bank. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka.

Mr. Rodrigo serves as the Chairman of the Audit Committee of Ceylon Tobacco Company PLC.

Susantha Ratnayake

He was appointed to the Board of Directors of CTC in October 2006. He is the Chairman of John Keells Holdings PLC and is a Council Member of the Employers Federation of Ceylon, Committee Member of Ceylon Chamber of Commerce and serves as a member of Tourism Sovereign Rating and Investment Promotion Clusters of the National Council of Economic Development. (NCED)

Ariyaratne Hewage

MPA B.Ed

He was appointed to the Board of Directors in April 2008 as a Non Executive Director. He is a senior public officer and the former Secretary to the Ministry of Education. He has served in the regions as well as in central government agencies. He has served as the Secretary to Ministry of Ports and Aviation, Ministry of Rehabilitation, Resettlement and Refugees and Ministry of Development of the East, Rehabilitation and Resettlement, Rural Housing and Women's Affairs.

He has obtained the degrees of Bachelor of Education (B.Ed) from University of Peradeniya and Master of Public Administration (MPA) from West Virginia University, USA.

Mobasher Raza

M.Com

He was appointed to the Board of Directors of CTC in November 2007 as a Non Executive Director. He has been with the Pakistan Tobacco Company Limited (a member of British American Tobacco Group) for the last 29 years. He joined the Company as Management Trainee in 1979 and held various key positions in the Finance function within PTC as well as with other Group Companies.

His international assignments include Internal Auditor for British American Tobacco UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica duhana Zadar (British American Tobacco subsidiary in Croatia). He returned to Pakistan in 2002 as Chief Financial Officer and was appointed as Finance Director in 2003.

In November 2006, he was appointed as Deputy Managing Director of PTC in addition to his role as Finance Director.



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The Executive Committee

Mustanser Ali Khan
CEO



Bruce Jalleh
Finance Director



Dinesh Dharmadasa
Corporate &
Regulatory Affairs
Director



Rajiv Meewakkala
Marketing Director



Samitha Perera
Human Resources
Director



Gerson Pesoa
Supply Chain
Director





Value Creation

“Value Creation through offering consumer relevant choice was the thrust of 2008 marketing activity. The launch of Pall Mall at price parity to JPGL, and the re-launch of Dunhill with a new marketing mix, commenced the establishing of Global Brands amongst our loyal consumers.”

2008 was a challenging year, with the trickling down of the unprecedented price increases in 2007, deteriorating economic fundamentals impacting disposable incomes of consumers as well as trade. This phenomenon led to declining volumes and VFM consumers downtrading to cheaper brands in the portfolio whilst also increasing their interaction with illicit cigarettes. Traders lowered stock buffers at retail and also was further impacted due to unfair enforcement of regulations leading to harassment of traders.

Within this difficult marketing environment the focus on establishing Dunhill and Pall Mall as strong consumer brands, re-structuring of the Trade Marketing and Distribution model at CTC to drive further effectiveness and efficiency, reassuring traders as well as consumers, in the wake of spates of unfair enforcement was also a key initiative during the year. In spite of all adverse conditions, CTC's flagship brand John Player Goldleaf continued its' journey of success with volumes holding steady even with a steep increases in prices.

Brand portfolio stronger with Global Drive Brands

Dunhill - Establishing and growing premium

Dunhill re-inforced its credentials as “Perfectionist in Tobacco” through globally tailored programs driven through Limited Edition Pack offers i.e., Tin Packs. The price was also narrowed with JPGL to facilitate uptrading, combined with distribution expansion to provide growth impetus for the brand. Along with this re-positioning initiative,



Distributors' of Ceylon Tobacco Company



Value Creation

the off-take for the brand increased with also enhanced consumer equity around the offer.

Pall Mall - Offering choice & innovation

Pall Mall was launched in 2007 along with its range of Lights & Menthol offerings. A 12's pack along with International Limited Edition offers were introduced during the year to bring out the energy and dynamism of the brand. A price re-alignment took place in February to bring the Pall Mall price to parity with JPGL in line with its global positioning.

John Player Goldleaf - CTC's value driver

John Player Gold Leaf (JPGL) the most dominant brand within the CTC brand portfolio continued its strong standing in the market place being resilient to price increases. The brand was supported by strong visibility at retail level and a near 100% numeric distribution.

Viceroy

The brand declined due to downtrading and smokers quitting the category. The main challenge was to sustain the distribution levels of the brand due to lower off-take at retail level

VFM brands thriving in difficult economic conditions

Three Roses and Capstan benefited from consumers moving into these offers due to the impact on disposable income, and also through the expansion of distribution.

A more effective and efficient trade marketing model

CTC operates a route to market model driven by exclusive distributors. In 2008 CTC initiated a distributor consolidation process in which 12 distributors opted to leave. Along with this change a major overhaul was done in canvassing, introduction of mechanised delivery modes, remuneration patterns i.e. performance based and also enhancing skill levels of distributor staff. This should drive further efficiencies in the system, and support CTC staff in conducting Trade marketing activity.

CTC conducted meetings for over 12,000 traders as a reassurance campaign due to unfair enforcement of regulations. This enabled CTC to also educate consumers through the trade. Poster campaigns were also initiated at trade level to educate smokers on the regulations and also clearly articulating the offence of selling cigarettes to Under 21's.

In summary

2008 was a difficult year for CTC Marketing, but during the period initiatives have been undertaken to strengthen the fundamentals in portfolio and trade marketing & distribution which will need to be built on in 2009 to ensure the framework of success is in place to match future challenges.

Valued Business Partners

Distributor	Length of Relationship
Colombo	
Arunadisi Ltd	80
W.D. Paulis Appuhamy & Co.	76
New Trading Stores Ltd	62
Samaranayake & Co. (Pvt) Ltd.	57
J P Weerasinghe & Co. Ltd	36
Jaywardene & Sons	24
Excel Distributors (Pvt) Ltd	4
South	
S.U. Mohamed Hadjar (Pvt) Ltd	77
K.M. Siyaneris (Pvt) Ltd	77
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	77
Moratuwa Stores	62
Wickramaratne Distributors (Pvt) Ltd,	22
Central	
Upali Perera & Sons (Pvt) Ltd	67
Bibile Trading & Forwarding Agency	64
Gamani Bros Ltd	52
Kalmunai Distributors	52
Ampara MPCs Ltd	44
Amirthans Distributors (Pvt) Ltd	22
North	
L.H.L. Noris de Silva & Son (Pvt) Ltd,	65
K.D.H. David & Co.	57
D.S. Gunasekera Ltd	52
G.H.A. De Silva & Co.	52
Nimali & Bros. Ltd (Matale)	50
Kurunegala Merchants Ltd	42
Dambulu Multi Trades (Pvt) Ltd	30
S Thirunavukkarasu & Sons	22
Kugan Stores	8
Vickneswaran Stores	8

Supplier	Country	Length of Relationship
Foreign Suppliers		
Papierfabrik Wattens G.M.B.H	Austria	25
Tann Papier G.M.B.H	Austria	25
Daicel Chemical (Asia) Pte Ltd	Japan	20
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	20
Benkert (UK) Limited	UK	20
National Starch & Chemical (M) SDN BHD	Malaysia	14
Chancery Manufacturing Limited	UK	13
Alcan Packaging Bristol	UK	10
Hovat Limited	UK	10
Indian Tobacco Company Limited	India	9
General Metallisers Limited	India	9
Anzpac Services (Australia) Pvt Ltd	Australia	8
Tann Philippines Inc.	Philippines	4
PT Argha Karya Prima Industry,TBK	Indonesia	3
Siegwerk Switzerland AG	Switzerland	3
Local Suppliers		
Aitken Spence Printing (Pte) Ltd		16
Nisol Corrugated Cartons Ltd		15
Ceylon Tapes (Pvt) Ltd		10
Packwell Lanka Limited		9
PrintCare Packaging (pvt) Ltd		2



Productivity

“Our theme of “productivity inborn” depicts the very success of our activities across the supply chain.”

Fully Optimised Supply Chain

Productivity has been the cornerstone of CTC's continued successes in 2008 with continued efforts and emphasis made during the year to sustain the momentum of smart cost management. Despite declining volumes, excise led price increases and a downturn in economic activity, the Company performance during the year under review was commendable. This was possible due to its ability to optimise resource utilisation and the result of innovative productivity initiatives undertaken in previous years. Thus our theme of “productivity inborn” depicts the very success of our activities across the supply chain. Through strategic actions, a coherent productivity enhancement plan, and innovation CTC continues to demonstrate its position as an inspiration for corporate excellence in Sri Lanka.

On a concentrated efficiency drive, CTC recorded the highest ever productivity level with a 13% increase over the same period last year. This achievement is essentially attributed by the implementation of the strategic 'Bull's Eye' recommendations, a global British American Tobacco project to benchmark the effectiveness of manufacturing units throughout the world, a cycle of productivity initiatives and supply chain innovations. Our successes in 2008 from farmers to traders unfold a new chapter in corporate excellence in Sri Lanka.

Supporting rural farmers for better productivity

Our relationship with fifteen thousand farmers engaged in leaf growing and curing has grown stronger during the year. Recognition programs, workshops, bonus schemes and activities that give prominence to the vital role of the farmer community have enabled CTC to enhance self-worth of the farmer. Leaf growing however in 2008, suffered a crop failure with erratic weather patterns dampening the crop during the Yala season. To ensure the leaf sustainability and to support the farmers during this difficult period, as an interim measure CTC extended the rolling loan scheme for one more crop year. Also, CTC initiated a project to accelerate leaf expansion and increase yields during 2009.

Over the year, CTC renewed its role as facilitators in the lives of the farmer communities by assessing how best it can contribute to enhance their lives and livelihoods. Many developmental projects are currently in progress to offer growth opportunities and to support their commercial endeavours.

Better returns for tobacco farmers

A forward contract system is in place which guarantees a set price for their produce, even if the price of tobacco fluctuates - one that is set by mutual agreement prior to planting. These mutual agreements are based on productivity and competitiveness whilst

maintaining a longer term relationship with farmers.

Productivity enhancement through training programmes

While special training programs for the farming community continues, through sharing of best practices the company aims to increase the yield enhancements of the rural economy and the living standards of the farming community.

During the year, approximately 10 farmers were taken on a sponsored visit to India for familiarisation of best practices, for productivity improvements. Extending support to their lives and not just livelihoods, we offer scholarship schemes for the children of tobacco farmers for the total period of their university education.

Farmer hotline and Maize Cultivation

A special hotline was set up for farmers in 2008 to phone in with queries, comments or suggestions immediately responded to by the CTC field staff.

The growing of Maize as an inter-crop was undertaken with hybrid seeds given out free of charge, to help farmers have a supplementary income and reap additional profit. This initiative is in line with the government's goal to achieve self-sustenance for the nation.



Productivity

Farmer Appreciation

The 'Farmer Appreciation Program' - an initiative to recognize their contribution to the growth of CTC; 80 of the best tobacco farmers in Sri Lanka were rewarded in the presence of the Minister of Agriculture.

As a responsible corporate citizen with a history of leaf growing for more than a century in Sri Lanka, CTC not only looks after the well being of the tobacco farmers, but extends support to other farmer communities. Towards this end, several micro projects are currently underway in Ududumbara, Madugalle, Galewela and Hanguranketha areas.

Flexible packaging line to meet consumer demand

With the launch of Global Drive Brands (GDB's) in Sri Lanka the requirements for producing innovative or limited edition packs challenged our existing production structure. Innovative packaging campaign for Pall Mall popup pack, limited edition packs of Dunhill 10s and 20s as well as Pall Mall 5s were three key challenges, embraced during the year, proving our flexibility in production capabilities. The 'flexible packaging line' was introduced and offered as an alternative with the existing technology, people, skills and stakeholder engagement to meet the said requirements. While the cost benefit to the company has been considerable, the flexible line offers the advantage of being able to cater to exact local requirements with unique packaging options.

Dunhill manufacturing localisation

Localisation of manufacturing of Dunhill was another significant achievement bringing in productivity and cost benefits. With an intensive effort, the supply chain team completed the machine conversions with an investment of Rs. 39.5 million to ensure the timely delivery of Dunhill product in all three variants with highest quality standards.

Perfectionist in Tobacco through Perfectionist in Quality

Stringent Quality Control is an integral part of the CTC work-ethic. With strict policies and rigorous standards and measures, the quality of our products are managed and maintained through conformance across the supply chain. These processes ensure excellence while our priority on maintaining supplier relations improves mutual business benefits. Constantly exploring novel and innovative means to ensure that customers get the very best at all times, we place our reputation firmly on the integrity of our products.

The CTC quality policy ensures our commitment to deliver world-class products. Through the adoption of a strong internal system that sets in motion a framework for conformance to quality criteria in all aspects of processing and production, CTC has consistently achieved high ratings in the BAT Quality Index. Our continued above average ratings reflects our commitment to meeting excellence in quality. Continuous benchmarking with other operating companies and improvement in process and control standards has resulted in improving overall product quality in Global Drive Brands and other local products.

During the year CTC carried out an international review to evaluate the overall product integrity and traceability and the survey outcome reflected that CTC has established a robust process with high international standards. CTC's production processes also conform to ISO 9001 : 2000, ISO 14001 : 2004 international standards and re-certified at the periodic surveillance audit.

Commitment to quality is reinforced at all levels of operations whilst employee empowerment in the quality assurance process is encouraged. This has improved the speed and effectiveness of decision making at all levels of operations.

Maximum effectiveness for customer satisfaction

Consumer focus is a key driver right across the supply chain with a firm commitment to deliver world-class products. Through the identification of insights and understanding of consumer's quality perceptions CTC is driven to exceed expectations. Product based complaints, however small, are investigated and remedial action taken. Thorough Customer Satisfaction Measures (CSM) surveys are conducted periodically to ensure customer satisfaction. The Social Reporting dialogue takes place with external stakeholders in order for CTC to be open to opinions, views and advice. It is a valuable forum via which the Company gathers a fairly accurate perspective of public perception and expectations. We respond to reasonable stakeholder requests immediately. A 24-hour customer care hotline augments CTC's customer satisfaction efforts and responses to queries or complaints are dealt promptly within a set time frame.

Enhanced productivity through synergistic supplier relations

To ensure that our suppliers meet company expectations, we have a structured Supplier Management Plan in place. Creating a winning solution for both the company and the suppliers, this enables the company to analyse supplier performance and potential as well as define their performance improvement capacity.

During the year CTC was actively engaged in improving supplier standards by actively driving a process called B. E. S. T (Business Enabler Survey Tool), which is designed to improve overall supplier performance through benchmarking and building longer term professional partnership.

CTC has established contingency plans to ensure business continuity in case of a crisis situation. All critical plans have been reviewed and tested during the year.

CTC's Supplier Relationship Management & Supplier Development Program implements several activities, including Sourcing Partner Conventions, Supplier Visits and Evaluations, providing funding for production, and offer valuable managerial input as well as training workshops for supplier company employees.

CTC's Procurement Team regularly visits suppliers to assess capabilities and identify areas for improvement. Several measures are in place to respond to their queries and concerns, with open dialogue and transparent processes.

Looking forward

Looking at the year ahead, several supply chain initiatives to further increase productivity are planned with the focus on supplier development with the introduction of a tool that would be exemplary - a process based on support and review as opposed to audit, working with them collectively towards a common goal. At CTC we believe that developing the strengths of our suppliers is imperative to our growth, assisting us to make significant savings and achieve our targets. As during the year under review, we hope to continue our drive for excellence into 2009 and beyond, driving productivity and encouraging innovations.

Innovation - bringing about a cultural change

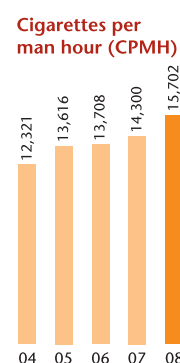
In line with the focus on increased productivity, a new initiative was launched with a dedicated project team set up to drive innovation within the company. Although innovation has always been central to operations at factory level, it was now being introduced and extended to other areas within the company. The objective of this initiative was to get everyone involved in the search for big ideas to improve output in all aspects of the business.

A special communications campaign was also launched internally to promote this initiative, with the setting aside of an 'Innovations Day'. Kicking off with a vibrant teaser campaign, the communication aimed to create a culture of innovation within the organization and make it a hotbed for

inventive ideas to emerge and flourish. The ongoing program will then provide a system to collect and harness these ideas and bring them to fruition.

An internal communications campaign termed 'Now that's Innovation' is currently in progress. This was launched on the Innovations day with the full support of our top management - The CEO himself, explaining the process and emphasizing why innovation is needed for the productivity growth and the overall efficiency of the company.

The response to the project has been very encouraging and ideas are being contributed from across the divisions. This would be validated by the fact of a positive shift in terms of 'innovativeness' in the recently concluded Your Voice Survey. Today organisation wide 'innovation circle meetings' headed by the CEO himself has brought about a sense of excitement to the project. We hope to continue the success of this initiative into 2009 as we continue our stride being inspired to innovate!





Responsibility

“Focus on productivity has always been a fundamental facet of our CSR activities.”

Responsibility that brings productivity for all

Far from being another corporate buzzword, the concept of social responsibility upholds the very pillars of our business strategy - a philosophy built deep into our policies, our culture and the core of our being. Focus on productivity has always been a fundamental facet of our CSR activities. In 2008 all our projects, from sustainable agricultural development (SADP); biodiversity; community development; voluntary regulation; harm reduction to environmental, health & safety (EHS) took on an accelerated drive to improve efficiency and output in the dual aspects of both people and environment.

As always, our promise is that social responsibility is the 'responsibility' of everyone at CTC, from top down - the management, the staff and the stakeholders. Their contributions, views and perspectives, one and all, are much valued. We not only encourage their opinions through constructive dialogue, but actively listen and incorporate their suggestions in to our business through the procedures and processes already well in place.

Since monitoring the progress and success of our initiatives is imperative, we adhere to a strict social reporting

process, meeting the stringent demands of internationally accepted standards such as AA1000 Standard/Global Reporting Initiative (GRI) guidelines, as well as an independent audit by Bureau Veritas. The publication of a separate, detailed social report has been an important effort in its own right, and following the success of the 2005-06 social report, the next issue is due shortly and is presently at its final stage of completion.

SADP

One of our flagship projects and a unique concept developed by CTC - the Sustainable Agricultural Development Program (SADP) now into its third successful year continues to help poverty-stricken rural communities to sustain themselves. Based primarily on knowledge transfer, the program offers no direct financial assistance as a policy, but offers support in the form of methods, means and skills, focusing more on a sustainable solution to poverty as well as an attitudinal change from dependency to self-sustenance amongst the rural communities.

This pioneering project implemented in 2005, with the guiding principle “we will help those who are willing to help themselves” utilizes inexpensive

agricultural methods and natural resources available, to enable such families to grow their own food, as well as earn some income by the sale of excess produce. The project is tiered in two stages over approximately 2 1/2 years. The first stage provides the families with free seeds and assistance needed to cultivate crops such as pepper and vegetables in their home plots. The families, who successfully complete this stage, move on to stage two where other aspects such as animal husbandry or cultivation of specialized crop are enabled.

The project has so far offered assistance to 3,578 families overall in the villages of Meegahakiwula, Kalalgamuwa, Ududumbara and Ruwanwella and the program also extends to the regions of Polonnaruwa and Galle.

Productivity of SADP in the year under review has progressed in leaps and bounds with the number of families in the project increasing from 1,600 to 3,578 with plans to increase the number upto 10,000 by 2010. With continuous support from the top management of the Company as well as our stakeholders we were able to achieve our targets set for 2008 above and beyond expectations.



“As always, our promise is that social responsibility is the 'responsibility' of everyone at CTC, from top down - the management, the staff and the stakeholders”





Responsibility

200 families exited the program last year and research is underway, both by CTC and by independent bodies to monitor and measure their success. Their progress, according to research conducted so far, is very encouraging and a full report is expected by mid 2009.

For the communities in SADP, it has indeed been a productive year. In addition to the tangible benefit of monetary gain, they continue to reap rewards also in the form of social acceptance, self-worth and self-confidence that stems from being viewed as contributing members of society rather than dependants of the economy.

SADP Plus

With a view to developing the Eastern province, a hybrid of SADP, namely SADP plus will be launched this year. Unlike SADP where the families were encouraged to be self-sufficient through use of their home gardens and plots, SADP plus will allocate more land space in order to grow commercial crops and provide a longer means of livelihood. The programme will also focus on infrastructure development in these areas. The number of families in this program is expected to reach 4,000 by the end of 2010.

The continuing success of SADP proves that little help can go a long way in order to alleviate poverty -without the need for inexhaustible resources, massive investments or drastic measures in national infrastructure or indeed, restructuring of development policies. Having set the precedent, we hope at this stage that others will join or follow us in our endeavour to uplift our communities in need.

Bio-diversity project

Another pioneering initiative by CTC, aimed at creating an extensive long term impact on the native resources of Sri Lanka, the bio-diversity project continued to help improve the natural productivity of our land throughout 2008. The re-forestation program raised its productivity levels during the year with some new research being conducted with relation to the converting of Eucalyptus plantations into native forest which will be more beneficial to the natural habitat.

The project now nearing completion, having arrived at a feasible solution for successful re-forestation will be soon ready for replication. This was made possible by the unstinted efforts of the research teams - a collaboration of 4 internationally recognized leaders in bio-diversity development: Earthwatch

Europe, Flora & Fauna International, The Royal Botanical Gardens Kew and the Tropical Biology Association together with a team of specialists headed by Dr. Kithsiri Ranawana of the University of Peradeniya, who assist with valuable on-ground expertise and local know-how. The research findings will indeed be a matter of national interest, as they will lead to a unique, much needed solution to restore the beauty and habitat to what is native, natural and more productive to our country.



Environment, health & safety

The driving force of productivity

To reduce the impact we make on the environment, to minimize the impact of work on the health and safety of our employees, as well as being open and transparent in communicating our performance is our (raison d'être) reason for being. The EH&S management system implemented at CTC maintains BAT's standards in Environment, Health & Safety, and also complies with such related laws and regulations on a national level. EH&S is serious business at CTC and we're fully committed to creating and achieving the ideal of a safe, healthy and environmentally friendly work place, with the system fully implemented under the purview of the Supply Chain Director and executed by a dedicated EH&S Manager together with cross-functional teams from all areas of the organization. Healthy, happy people in a healthy, happy workplace invariably lead to better results all round. Therefore EH&S played an especially vital role in the productivity driven focus of 2008.

Two factors measure the effectiveness and performance of our EH&S System: The quantification of accidents and a Road Map Improvement analysis. The year under review, yet again proved exceptional in maintaining high productivity, with zero accidents and no loss of workday in any area - both machinery and people. We have also achieved increased efficiency levels in the management of material, water, waste

and energy, as per the Road Map Improvement scale.

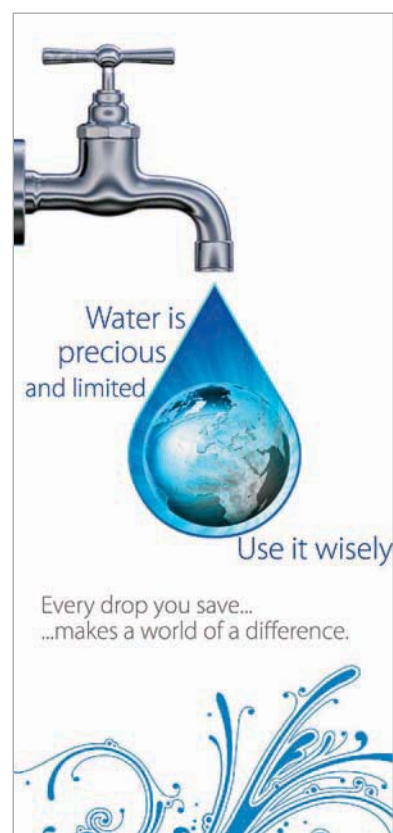
In 2008, two new EH&S projects got underway both geared to improving productivity through education and involvement, of all across the organization: Go Green Week and Forestry Week were both launched in November this year.

Go Green Week

With the primary focus of energy saving towards increasing productivity, the Go Green campaign got underway to educate all staff at CTC on energy management. The objectives of the program were to educate them on the importance of energy management to CTC and to society as a whole; to create awareness of the issues involved, and discuss methods and means. It was also vital to drive home the correlation of financial benefits to this project and the role of EH&S in achieving these goals.

Although serious in intent, the program was structured in a very light, friendly and entertaining manner to encourage participation from everyone. Interactive 'games' such as Kaizen programs, quiz competitions made gaining and sharing knowledge most enjoyable. Informative leaflets on energy saving together with recycled papers and holders were given out for daily use, with an internal communications campaign of posters and hoardings sporting messages and

prompting recall as well as stickers around company premises with instructions on how to save energy. Special training sessions were organized to enhance staff knowledge and video presentations also ran on the common canteen promoting the Go Green message.



Forestry week

A vital component of sustainable development is the preservation of environment and to this end a week of intense activity involving not only the company but its stakeholders and the communities at large, took place last November. Based on the principle that every little effort goes a long way, the Forestry Week aimed to educate and engage our employees as well as others in the community in several conservation related activities to enhance the biodiversity levels in their areas. The project rolled out in two stages.

The first stage involved every depot of the company in organizing a tree planting campaign with plant distribution programs for their respective regions. This activity involved not only our staff and stakeholders, but high profile community members such as religious leaders, politicians, police and armed forces personnel as well as the general public; where all joined hands in

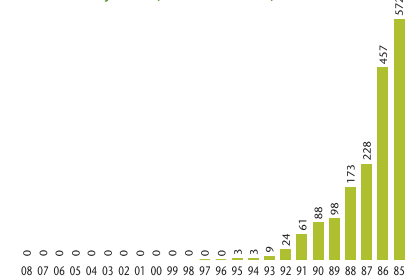
implementing this program in many public places. Not only did this bring people together towards a common goal, but provided important education and an increased knowledge level that would benefit the conservation cause long term.

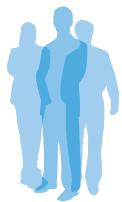
A plant distribution program comprised the second stage of Forestry Week. Organized at the CTC factory in Colombo it received full and enthusiastic participation from all departments at all levels. Two plants were given to each participant together with educational material on preserving the environment to benefit both the company and the country.

High standards continue to be upheld in EH&S with CTC maintaining ISO9001-2000 Quality Management Certification; the ISO14001-2004 Environmental Management System while being certified with the upgraded OHSAS18001-2007 Occupational Health and Safety Management System. We are

utterly committed to compliance with these stringent standards with internal audits for EH&S conducted on a regular basis in addition to the external audit reviews of our management system, every six months.

Lost Workday Case (no. of accidents)





Winning

“Under the umbrella of 'developing outstanding people, whilst creating a great place to work' several strategies were developed and executed to drive the people agenda at CTC.”

People - the quintessence of productivity

Human Resources play a fundamental role in an organization's productivity - a co-relation of growth. Development of human resource potential is built into the culture and essence of BAT and forms a vital component of our developmental goals at CTC. It is our people, with their commitment and loyalty who have enabled the growth and continuing success of our Company and we in turn endeavour to do our utmost, to develop and nurture them, both in their professional and personal life.

Our HR strength covers the entire value chain of the organisation; from seed to smoke, encompassing 375 full time employees (including permanent and contract employees).

The main focus of our HR operation for the year under review, spread out to four key pillars: talent, culture, reward and leadership. The development of each of these areas was undertaken through various projects based on the principle of Business Strategic Partnering. This enabled us working more closely with the business.

Under the umbrella of 'developing outstanding people, whilst creating a great place to work' several strategies were developed and executed to drive the people agenda at CTC.

Talent & Leadership

Employer of Choice

In terms of talent intake is concerned, the good talent inflow of 06/07 continued with more concentration on

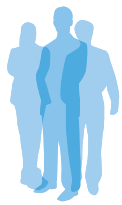
Management Trainee programs and standards in 2008. We have also moved up in our ratings for 'Employer of Choice' gaining 16th place, from 31st last year.

Building our employer brand was another area of concentration, with many projects underway with University partnerships, corporate ambassadors, structured internship programs and industry benchmark visits.

Talent Development

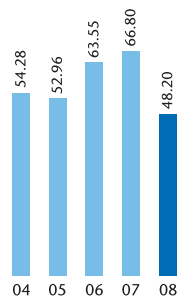
Significant progress has been mark in the area of talent development and retention. Zero key talent loss is a significant achievement of the year. An extended overseas exposure was given by employees through 10 long term and 12 short term assignments. Overall we recorded a 9% of managers' promotions





Winning

Training & Development
(Rs. Mn)



last year. Identification of development needs of all knowledge workers and executing a comprehensive development portfolio catering to majority of those needs is worth mentioning at this point

Challenge Initiative

With our flagship Management Trainee development program we continued our emphasis on building future leaders. Compulsory cross market and cross functional exposure, business project leadership with frequent visibility to the top team together with an effective mentoring program were some aspects of focus. The overall program continues to be popular and effective with all 9 Management Trainees completing their two year accelerated development programs with a great success.

Management Development Course

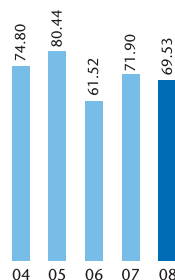
A special Management Development Course is also in progress. This is specially designed to boost the capabilities of a selected pool of high potential managers with relevant identified areas to develop. An intensive 5 day workshop was conducted with continuous evaluation. This program is geared to provide accelerated development for the

participants to reach the level of management expected of them within a given time frame.

Marketing Academy & Executive Development Course

To further strengthen our learning portfolio, several innovative talent development initiatives were carried out. As a marketing organization the most notable is the Marketing Academy, a 6 month program was planned to create a pool of rounded marketing managers through a structured development program in partnership with Sri Lanka's premier Academic Institute The Postgraduate Institute of Management. In addition, Steps were also taken to strengthen the 'frontline' below management levels with an Executive Development Course which focused on creating business awareness and leadership development.

Welfare Cost
(Rs. Mn)

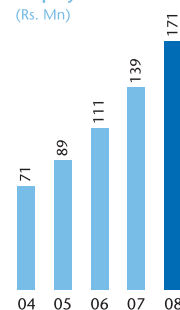


Self Development

At CTC self-development is indeed a part of our culture. Everyone at all levels is actively encouraged to gain professional and academic qualifications and self-study assistance schemes are set in place for that. We're proud to report that 33%

of our managers used that scheme last year. To create a more conducive environment, a new and improved Learning Centre is also in place with access to all best in class academic & professional literature, as well as a discussion area.

Value Added per Employee
(Rs. Mn)



Culture

A key HR strategy is to create an environment where people are inspired to perform. "Your Voice Survey " is a diagnostic tool designed to measure organizational climate, employee satisfaction and morale in British American Tobacco to identify & prioritise action and behavior which would make our organization a 'Great Place to Work'. It provides an opportunity to our people to express their thoughts and feelings about our workplace in many aspects. The aim of this survey is not only to identify and celebrate our strengths as a Company, but also to identify improvements we can make across the Company to make CTC a " Great Place to Work ! "

Based on "Your Voice" results for 2007, a more focused and structured approach was undertaken to address the issues raised, resulting in number of initiatives and action plans which have taken place

at an organizational & functional level. As a result, CTC has achieved very high response rates for 2008 which is one of the highest in the BAT Asia Pacific region.

Communication

To ensure continuous improvement in communication & interaction, many projects were launched during 2008. The creation of an 'open floor' with top team to encourage leadership communication, cross functional business projects were launched under the "BIG ROCK" theme where teams of employees set out to achieve tasks during a given time period. This is not only resulted in increased business knowledge but also further strengthen the team work.

Reward

With relation to Reward & Recognition the current schemes were utilised such as the Chairman's awards, Token Gifts , Battle Field Bonus, Kaizen awards, Trade Marketing Executive awards, Trade Recognition Scheme and Spot awards.

Whilst addressing the softer issues, 'Creating a Great Place to Work project ' also focused on creating a physical environment where people are energised & motivated to perform. In line with this, many improvements were made with a 'new look to the offices, a newly refurbished canteen, smoking lounges, new meeting rooms & facilities & a refurbished learning centre.

Employee Relations

The sustained relationships between the management and the unions over the past two decades has contributed towards improving productivity

Based on productivity, quality and company performance, we link rewards to business results and performance, even in a Collective Agreement governed situation

Social upliftment programs also continue to play a vital role and involve the whole of CTC with the union members and their families as well. Common facilities with in the CTC premises create the mindset that all are equal and contribute equally to our business success.

These fundamentals form the philosophy and the success of our employee relations and today we are proud to even be a case study for others to learn from, especially in terms of union management. Once again, we are being an inspiration to others, in line with our corporate vision.

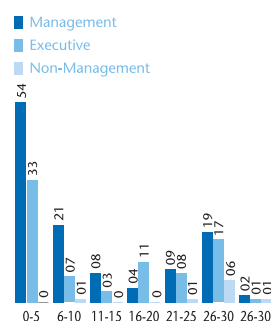
Looking Forward

There is a new approach for the year ahead, with the function progressing from service to business partnering working alongside other functions to drive the overall business strategy. An overall synergy in operations is expected in 2009 with all processes - talent, reward and development, aligned to the business. A harmony we believe will lay the foundations for a greater success in achieving our people agenda developing extraordinary people, whilst creating a great place to work, in the years to come.

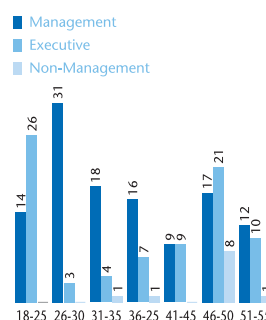
As we look towards another successful year, we hope to strengthen our relationships and nurture the development of those who make us, and keep us who we are. Our people continue to be our best and strongest

asset and we appreciate their efforts - big and small. We continue to take great pride in their achievements, and believe that together we can overcome the challenges ahead.

Service Profile



Age Profile





Enterprise Governance

At CTC corporate governance is a priority, a priority that has become a way of life and is embedded into every aspect of our business processes. We shape the successful infusion of conformance and performance measures to great heights by taking good governance seriously, recognizing it as an imperative as opposed to requirements of formal codes of practice.

Key elements of Corporate Governance

Role and Composition of the Board:

The Board is responsible to the Company's shareholders for the success of the entity and for the overall strategic direction, its values and governance.

A balance of Executive and Non-Executive member representation on the Board ensures impartiality. Selected by the Nominations Committee that seeks, individuals with independence, capabilities, and their potential to contribute to the Company, Non-Executive Board members perform an important role in providing an external perspective to the business. Three Non-Executive Directors have been declared by the Board as Independent Non-Executive Directors as per corporate governance best practice. The Board gives direction to the long term strategy, seeking and contributing views and opinions on strategic options proposed by Executive Management. All members of the Board have the fiduciary duty and statutory liability regardless of whether

they are Executive or Non-Executive Directors. The position of Chairman and CEO are kept separate in line with good governance practice. All meetings of the Board and the sub-committees were well attended during the year. All Board members have specific responsibilities in controlling and setting direction through the various Board Committees. A well structured induction program is conducted for the newly appointed Directors of the Company.

Performance of the Board:

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

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

specific responsibilities. These being; Nominations Committee, Audit Committee and Remuneration Committee.

Nominations Committee:

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

Audit Committee:

The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance and the conduct of business in accordance with the Standards of Business Conduct of British American Tobacco PLC (BAT). This includes ensuring compliance with relevant corporate governance requirements &

CTC Board	Board of Directors	Audit Committee	Remuneration Committee	Nominations Committee
Frequency of Meetings	Quarterly	Quarterly	Bi - Annually	As and when necessary
Desamanya Ken Balendra**+ (Resigned w.e.f. 25.03.2008)	✓*(attended 1 out of 1 meeting)		✓(attended 1 out of 1 meeting)	
Jayampathi Bandaranayake**	✓* (attended 4 out of 4 meetings)		✓* (attended 2 out of 2 meetings)	✓* (attended 1 out of 1 meeting)
Mustanser Ali Khan	✓(attended 4 out of 4 meetings)		✓(attended 1 out of 2 meetings)	✓(attended 1 out of 1 meeting)
Chandra Jayaratne**+ (Resigned w.e.f. 25.03.2008)	✓(attended 1 out of 1 meeting)	✓(attended 1 out of 1 meeting)	✓(attended 1 out of 1 meeting)	
Vijaya Malalasekera**	✓(attended 2 out of 4 meetings)			
Sandeep De Alwis (Resigned w.e.f. 01.09.2008)	✓(attended 3 out of 3 meetings)✓			
Desamanya Deva Rodrigo**+	✓(attended 4 out of 4 meetings)	✓* (attended 4 out of 4 meetings)	✓(attended 2 out of 2 meetings)	
Susantha Ratnayake**+	✓(attended 3 out of 4 meetings)	✓(attended 3 out of 4 meetings)	✓(attended 2 out of 2 meetings)	✓(attended 1 out of 1 meeting)
Mobasher Raza**	✓(attended 2 out of 4 meetings)			
Bruce Jalleh (Appointed w.e.f. 01.09.2008)	✓(attended 1 out of 1 meeting)✓			
Ariyaratne Hewage**+ (Appointed w.e.f. 22.04.2008)	✓(attended 3 out of 3 meetings)			
Steve Rush (Non Executive member of the Audit Committee Appointed w.e.f. 01.02.2008)		✓(attended 3 out of 4 meetings)		

✓ Member

* Chairman of the Committee

**Non Executive Directors

+ Independent Non Executive Directors



Enterprise Governance

monitoring of the integrity of the financial statements. The Committee is also responsible for the External Auditors, their independence and quality of work. Interacting with external and internal auditors, the Committee ensures that audits are carried out with independence, integrity and objectivity. The External Audit Partner attended all Audit Committee meetings as an invitee and the Committee met with the Audit partner privately without the presence of management twice during the year. Close monitoring and control of type and value of non-audit work is carried out to preserve the independence of the external auditors.

Remuneration Committee:

The Remunerations Committee is chaired by the Chairman of the Company. The Committee determines the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors and the Executive Committee.

In the determination of remuneration, the principle of an individual not sitting in judgment on his own remuneration is strictly followed. Recourse is made to independent surveys and global best practice through the BAT specialists on board compensation.

CSR Governance:

With the increased focus on CSR projects, the CSR Committee was setup. The Committee is chaired by Chairman

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

Code of Governance and Business Conduct:

Operating under the guidance of a Code of Governance and Business Conduct for a number of years, the Company has been maintaining an exemplary standard of business conduct. Clearly communicated to employees across the organization from shop floor to the Board, in a relevant and consistent manner, the Code has been embedded in the daily functioning of the organisation. Addressing areas such as whistleblowing, personal and business integrity, public contributions, corporate assets and financial integrity, national and international trade the code demands compliance at all levels through sign-off from each and every employee. The Whistleblowing procedure enables the staff to raise their concerns whilst ensuring confidentiality.

Compliance Control:

Self-assessment against policies and key controls is the usual practice at CTC. Policies relating to rights and privileges of personnel, whistleblowing,

information and IT security are clearly laid out and communicated to staff at all levels. The security and safety of staff is a key priority. Our employment principles for which compliance continuously monitored includes: fairness and dignity at work, standards of business conduct and performance and environmental responsibility.

Compliance with National Laws and Regulations:

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

Risk Review & Management:

The risk profile of the Company is collated centrally, through sub processes of risk review with the Heads of Functions taking ownership for risk management. (This process is further explained in the section on Risk management) Each Function has a set of defined key controls, now established in the form of a checklist (Control Navigator) some of which are

fundamental whilst others are of basic importance. Each Head of Function is responsible for ensuring that there is compliance against these key controls. This will be the norm or the minimum standard that must be followed by operational staff, self-assessed by senior management and independently checked by audit periodically.

The Risk and Control continued to be an all encompassing activity during the year in review, permeating across the business

with a view to creating a greater cross-functional acceptance and aptitude of the function. "Are you in Control?" a training program aimed at increasing the awareness of the Risk and Control function was conducted to embed within staff the key principles of risk management and internal controls. Contributing to the global BAT network of internal audit, the department lent two of its staff to BAT Regional and International Audit teams in Vietnam,

Malaysia, Iran and Bangladesh. This has been done not only to improve resource utilization across the region, but also to deliver the appropriate technical skills to internal audit assignments, as well as to give increased development opportunities to audit staff.



Enterprise Governance

Section	Rule	Compliance
6.1 a	The Board to include at least 2 Non Executive Directors; or Non Executive Directors equivalent of one third of the total number of Directors, which ever is higher	Complied. Out of 8 Directors 6 are Non Executive Directors
6.1 b	Total number of Directors is to be calculated based on the number as at the conclusion of the immediately preceding the Annual General Meeting.	Complied
6.1 c	Any change occurring to this ratio shall be rectified within 90 days from the date of change	Complied
6.2 a	Where Board of Directors includes only 2 Non Executive Directors both such Non - Executive Directors should be independent. In all other instances 2 or 1/3 of the Non Executive Directors appointed to the Board of Directors shall be independent.	Complied. Out of 6 Non Executive Directors 3 are Independent
6.2 b	Non-Executive Directors to submit a signed and dated declaration annually of his/her independence or non independence against the specified criteria	Complied
6.3 a	Board shall make determination annually as to the independence or the non independence of each Non Executive Director based on such declaration and other information available to the board and shall set out in the annual report the names of directors determined to be independent.	Complied. Board Determined the following Directors as Independent <ul style="list-style-type: none"> • Desamanya Deva Rodrigo • Susantha Ratnayake • Ariyaratne Hewage (Rule No.6.4 of the Section 6 was taken as the criteria for defining independence)
6.3 c	A brief resume of each director published in the annual report including expertise in relevant functional areas	Complied
6.3 d	Upon appointment a brief resume submitted to the Exchange	Complied
6.5 a	Remuneration Committee shall comprise a minimum of two Independent Non Executive Directors (in instances where a company has only two directors on its board); or Non Executive Directors a majority of whom shall be independent	Complied. Remuneration Committee comprises: <ul style="list-style-type: none"> • 1 Non Executive Director • Two Independent Non Executive Directors

Section	Rule	Compliance
6.5 b	The remuneration Committee shall recommend the remuneration payable to the executive directors and chief Executive Officer of the listed company and/or equivalent position thereof, to the board of the listed company which will make the final determination	Complied
6.5 c	The Annual Report should set out the names Directors comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid	Complied
	<p>The audit committee shall comprise a minimum of Two Independent Non Executive Directors (in instances where a company has only two directors on its board); or Non Executive directors a majority of whom shall be independent, whichever is higher</p> <p>One non Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.</p> <p>Unless other wise determined by the Audit Committee the Chief Executive Officer and Chief Financial Officer shall attend Audit Committee Meeting.</p> <p>Chairman or a member of the Audit Committee should be a member of a professional body</p>	<p>Complied. Audit Committee comprises</p> <ul style="list-style-type: none"> • 2 Independent Non Executive Directors • 1 Non Executive Member <p>Complied</p> <p>Complied</p> <p>Complied</p>
6.6 b	Functions of the Audit Committee	Complied. Details of the functions of the Audit Committee is given in the 'Report of the Audit Committee'
6.6 c	<ul style="list-style-type: none"> • Disclosure in the Annual report • Names of the members of the Audit Committee • Determination of Independence of Auditors <p>Report of the Audit Committee</p>	Complied



Other Directorships of Directors

Name of the Director	Name of the Company	Position held
J.D.Bandaranayake	Hayleys PLC Finlays Colombo PLC Sampath Bank PLC Union Assurance PLC Westcoast Power (Pvt) Limited Coca Cola Beverages Lanka Limited Jay-Vin Investments & Enterprises	Director Director Director Director Director Director Director
Mustanser Ali Khan	British American Tobacco SAA Services (Private) Limited CTC Briquettes Limited CTC Leaf Exports Limited CTC Exports Limited Advent International Limited	Director Director Director Director Director
V.P.Malalasekera	Carson Cumberbatch PLC Brown & Company PLC Bogala Graphite Lanka PLC Ascot Holdings PLC Boston Capital (Pvt) Limited Axis Financial Services (Pvt) Limited CKR Tea (Pvt) Limited Fairway Condominiums (Pvt) Limited Boston Asset Management (Pvt) Limited MSH Packging (Pvt) Limited Taprobane Investments (Pvt) Limited Galoya Holdings (Pvt) Limited Taprobane Holdings Limited Taprobane Securities (Pvt) Limited Taprobane Plantations Limited Taprobane Mutual Fund Limited Taprobane Fund Management Limited Lexinton Holdings (Pvt) Limited	Director Director Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Director Director Director Director Director Director Director Director Director
Bruce Jalleh	CTC Services Limited	Director
Desamanya P.D.Rodrigo	John Keells Holdings PLC Holcim Lanka Limited Stanley & Davidson Property Holdings (Pvt) Ltd Sri Lanka Business Development Center	Director Director Director and owner Director
Susantha Ratnayake	John Keells Holdings PLC Ceylon Cold Stores PLC Nations Trust Bank PLC Keells Food Products PLC John Keells Hotels PLC Asian Hotels & Properties PLC Trans Asia Hotels PLC John Keells PLC Tea Smallholder Factories PLC Mortlake (Pvt) Limited Keells Consultants Limited Whittall Boustead (Pvt) Limited John Keells Social Responsibility Foundation Mackinnon & Keells Financial Services Limited John Keells International (Pvt) Limited John Keells Stock Brokers (Pvt) Limited John Keells Capital (Pvt) Limited Jaykay Marketing Services (Pvt) Limited Nexus Networks (Pvt) Limited	Chairman Chairman Director Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Director Chairman Chairman Director Chairman Chairman

Name of the Director	Name of the Company	Position held
	John Keells Foods India (Pvt) Limited	Chairman
	John Keells Computer Services (Pvt) Limited	Director
	Infomate (Pvt) Limited	Chairman
	Auxicogent Holdings (Pvt) Limited - Mauritius	Chairman
	Auxicogent International Lanka (Pvt) Limited	Chairman
	Auxicogent International (Pvt) Limited	Chairman
	Auxicogent Investments Mauritius (Pvt) Limited	Chairman
	Auxicogent Alpha (Pvt) Limited	Chairman
	Keells Hotel Management Services Limited	Chairman
	Ceylon Holiday Resorts Limited	Chairman
	Habarana Lodge Limited	Chairman
	Habarana Walk Inn Limited	Chairman
	International Tourists & Hoteliers Limited	Chairman
	Kandy Walk Inn Limited	Chairman
	Rajawella Hotels Limited	Chairman
	Trinco Walk Inn Limited	Chairman
	John Keells Maldivian Resorts (Pte) Limited	Chairman
	Resort Hotels Limited	Chairman
	Travel Club (Pte) Limited - Male	Chairman
	Fantasea World Investments (Pte) Limited	Chairman
	Yala Village (Private) Limited	Deputy Chairman
	Walkers Tours Limited	Chairman
	Whittall Boustead (Travel) Limited	Chairman
	Cinnamon Hotels & Resorts (Pvt) Limited	Chairman
	Tranquility (Pvt) Limited	Director
	John Keells Hotels Mauritius Private Limited	Director
	John Keells Warehousing (Pvt) Limited	Chairman
	John Keells Teas (Pvt) Limited	Chairman
	Keells Realtors Limited	Chairman
	John Keells Properties (Pvt) Limited	Chairman
	Mack Air (Pvt) Limited	Chairman
	Mackinnons American Express Travel (Pvt) Limited	Chairman
	Walkers Air Services (Pvt) Limited	Chairman
	Mack Air Services Maldives Limited	Chairman
	John Keells Air Services Private Limited	Chairman
	DHL Keells (Pvt) Limited	Chairman
	Keells Shipping (Pvt) Limited	Chairman
	Mack International Freight (Pvt) Limited	Chairman
	Mackinnon Mackenzie & Company (Shipping) Limited	Chairman
	John Keells Logistics India (Pvt) Limited	Chairman
	Mackinnon Mackenzie & Company of Ceylon Limited	Chairman
	Transware Logistics (Pvt) Limited	Chairman
	South Asia Gateway Terminals (Pvt) Limited	Chairman
	Lanka Marine Services (Pvt) Limited	Chairman
	John Keells Logistics (Pvt) Limited	Chairman
	John Keells Singapore (Pte) Limited	Chairman
	Asia Power (Pvt) Limited	Chairman
	Facets Limited	Chairman
	J K Packaging (Pvt) Limited	Chairman
	Elephant House Farms Limited	Chairman
	Wirawila Walk Inn Limited	Chairman
Mobasher Raza	Pakistan Tobacco Company Limited	Director



Financial Review

Environment: Challenging in 2008

2008 was a challenging year for Sri Lanka with high inflation, continued hostilities in the North and the global financial meltdown impacting the country. Despite these adverse conditions the economy posted a commendable GDP growth of around 6.0%, compared to 6.8% in 2007.

The inflation in Sri Lanka peaked in the middle of the year driven by high commodity and fuel prices, before moderating in the second half of the year to average at 23% for 2008. The high inflation affected the purchasing power of consumers and added pressure on cigarette volumes.

Volumes: Lower but Market Share Improved

The legal tobacco industry experienced a decline in sales volumes in 2008 relative to 2007 as a result of excise-led price increases and diminishing consumer affordability. The two price increases in 2008 resulted in the average sales prices increasing by 22%, which was in line with inflation for the year.

The Company's sales volumes registered a 5% decline in 2008 relative to 2007. Market share was however higher at the expense of counterfeit and smuggled cigarettes. The Company continued investing in its newer brands, Dunhill and Pall Mall which performed favourably in 2008.

Government Revenue: Rs. 50 billion Contributed in 2008

In 2008, the Company contributed Rs. 50 billion to the Government in various forms of Levies and Taxes. This amount included all payments of excise made in 2008. On a like-for-like basis, the Rs.50 billion represented an increase of 20% relative to 2007, being a result of the excise-led price increases and a better brand mix.

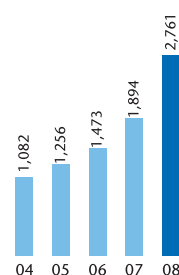
The law enforcement authorities effectively curbed the growth of counterfeit and smuggled cigarettes in 2008; more than 740 raids were carried out and over Rs.335 million worth of these cigarettes were confiscated and destroyed.

Financial Results: Driven by Productivity, Better Brand Mix and Sales Value

Gross Turnover grew by Rs. 7.9 billion to Rs. 54.8 billion in 2008, mainly as a result of the increase in average sales prices and better brand mix, offset by the decline in the volumes.

Productivity improvements in the areas of rationalising the distribution network, further localisation of material inputs and ongoing organisational restructuring delivered significant savings in 2008. Total expenses as a percentage of net turnover improved from 68% in 2007 to 63% in 2008. These savings, coupled with a better brand mix and sales value have contributed to the Profit After Tax increase of Rs.867 million to Rs. 2,761 million in 2008.

Profit After Tax
(Rs. Mn)



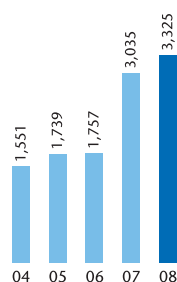
The Company more than doubled its efforts and investment in 2008 on its flagship Corporate Social Responsibility initiative, Sustainable Agricultural Development Programme (SADP). SADP now covers 3,578 families, up from 1,600 families in 2007. About 200 families have already exited SADP after achieving self sufficiency. The Company has extended SADP to the Eastern Province.

The tax expense for 2008 was Rs. 1,854 million in 2008, resulting in an effective tax rate of 40.2%. The higher rate stemmed from adding back disallowable expenditure relating to brand and trade marketing activities, CSR initiatives and asset write-offs.

Cash: Reflecting Operating Profit Growth and Working Capital Management

The net cash generated from operating activities achieved a growth of Rs. 289 million in 2008, which can be directly attributed to the operating profit growth and better management of working capital.

Net Cash from Operating Activities
(Rs. Mn)

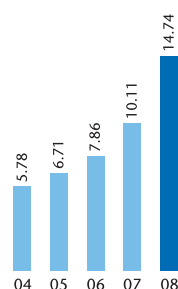


In addition, the Company invested Rs. 136 million in property, plant and equipment. This brought the total amount invested in property, plant and equipment to Rs. 1.0 billion in the five years to 2008.

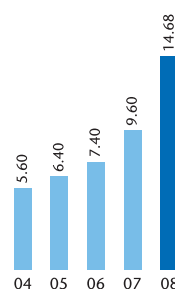
Shareholder Value: Growth in Dividend and Capital Gain

The Earnings per Share of Rs.14.74 for 2008 recorded a growth of Rs. 4.63 per share. The Dividend per Share (including the proposed final dividend of Rs. 2.13 to be approved by shareholders at the forthcoming Annual General Meeting) increased to Rs.14.68 from Rs. 9.60 in 2007.

Earnings Per Share
(Rs.)



Dividend Per Share
(Rs.)



During the year the Company's share price traded between a high of Rs. 80.00 and a low of Rs. 53.00. The closing share price at December 2008 was Rs. 66.00, representing a market capitalisation of Rs.12 billion (December 2007: Rs. 53.25/share or Rs.10 billion in capitalisation). The combined dividend and capital gain amounted to a return of Rs. 27.43 per share for 2008.

Going Forward: Driving Productivity and Curbing Illicit/Unauthorised Products

The current volatile environment will make 2009 even more challenging; Sri Lanka's economy will not be able to totally withstand the impact of the deepening world recession. To counter this, the Company will aggressively look at further measures to increase efficiency and drive productivity across the entire value chain to generate additional savings.

The Company will continue to engage with the relevant stakeholders to ensure fair enforcement of tobacco regulation. It

will also work with the relevant authorities in curbing the availability of illicit and unauthorised products in the market to protect the volumes of the legal tobacco industry and deliver revenue to the Government.

Bruce Jalleh
Finance Director

30th January 2009

Enterprise Risk Management

CTC encourages all staff, not just senior management to get involved in identifying and mitigating key business risks that may arise in their respective business processes. This is simply a self assessment technique that enables staff involved in a business process; or a team given responsibility for delivering on a project; to jointly identify the risks they face in achieving relevant objectives. Once risks are identified it is their responsibility to develop strategies to manage and mitigate those identified risks. The risk management framework and risk communication process highlights the high risk areas. The offer of support is always available as needed, from all areas and across all layers of the organisation.

Managing the risks of the Enterprise is considered a vital task at CTC. Key risks identified by departments and action plans proposed to mitigate those risks are reviewed by the Risk Management Committee (RMC). The RMC is headed by the Finance Director of CTC and each department is represented by a senior manager. The Executive Committee reviews the risks identified and mitigation plans each quarter. The Board on a quarterly basis, through the Audit Committee meeting process, reviews the approach taken for risk management and for business continuity.

In 2008 CTC adopted the 'British American Tobacco (BAT) Area Risk Management Framework' issued by BAT Global Audit. This is a basic, but formal risk management framework using standard templates and metrics.

A risk is defined as "any event, situation, or circumstance which, if it occurred would adversely impact the achievement of objectives, including the failure to capitalise on opportunities." This definition has been adapted from those provided by Committee of Sponsoring Organisations (COSO) and Institute of Risk Management (IRM) Frameworks to reflect BAT's requirements for risk.

Risk Management process

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

The risk management process is outlined in the flow diagram below:



Risk Identification

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

Assess and Evaluate

The assessment and evaluation of the risk is to determine whether the risk will have a high impact on the objective or strategy for the Company and whether the risk is likely to occur. The assessment will be done in a scale of 1 to 4 on whether the risk has a high impact and likelihood. A defined impact matrix and probability matrix is in place and are referred in this process. The multiplication of impact and likelihood will provide the assessment of total risk. This process will assist in determining whether the risk identified is a key risk to the Company.

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

Management of Individual Risks

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

Monitor

A corporate risk grid / risk register is maintained to facilitate effectiveness of the Risk Management process. This is updated quarterly by the Risk Management Committee.

The monitoring of risk management at CTC is performed via a review of the key

risks and their risk response by the Executive Committee. The Audit Committee provides an independent verification that the risks are being managed effectively.

Crisis Management and Business Continuity Planning (BCP)

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

Testing of Business Continuity Planning

In the beginning of the year, key BCPs to be tested are identified and a calendar developed based on which testing is performed. The key learnings from

testing are reported to the Audit Committee.

Risk Management and Internal Audit

The new audit methodology adopted draws a clear link between risk management and internal audit. The internal audit plan is derived mainly from the key risks of the Company. The processes which are linked to mitigation of key risks are audited giving assurance to the management and to the Board that the 'key controls' are in place to mitigate the risks.

In addition to this, the Risk Management process itself was reviewed by the Internal Audit department during the year which concluded that the process is effectively managed.

Statement of Internal Controls

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

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

To be effective internal control must:

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

Control activities include a comprehensive list of policies and procedures which ensures that the management directives are carried out and the necessary actions are taken to minimise the risk of failing to meet objectives. The policies and procedures are established throughout the

organisation and continuously reviewed for adequacy and improvement. The framework is designed to provide reasonable assurance of:

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

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

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

- The management identifies key risks facing the business on an ongoing basis and determines the appropriate control response, with the results being reviewed by the Executive Committee.
- The internal control system is monitored by the Risk and Control

department, which provides a reasonable assurance that the operational/ financial controls and procedures were effectively & consistently followed. Further it assesses management action in dealing with control issues. However there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. The Risk and Control department reports to the Audit Committee of CTC as well as to the South Asia Area Audit Manager.

- Business plans, covering a ten year time span and a company plan which covers two year time span, are developed and approved by the Board. A detailed annual budget is also prepared. Targets are set for key finance and non-finance factors that are critical to achieve the plan. The performance is monitored against the target, the previous year and other benchmarks through monthly and quarterly reporting regimes.

- Business oriented, appropriate authorization processes enables the Board to exercise better control over the strategic, financial, investment and organizational issues.

- The Company presents the financial results to its shareholders on a quarterly basis.

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit

Committee. The Audit Committee, whose functions are described in the Corporate Governance Statement and the report of the Audit Committee, met four times during 2008. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attended all Audit Committee meetings. The Audit Strategy Memorandum and audit issues on completion of statutory audit are presented at two of these meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they comply with the policy statement on internal control. These best practices were complied with during the year 2008.

The Corporate and Regulatory Affairs Department ensures that the Company is in compliance with the rules and communication requirements of Security and Exchange Commission. Risk and Control department independently reviews the process.



Mustanser Ali Khan
Managing Director &
Chief Executive Officer



Bruce Jalleh
Finance Director

30th January 2009



Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31st December 2008, together with the audited consolidated financial statements of the Company and for the Group.

GROUP STRUCTURE & KEY ACTIVITIES

British American Tobacco plc (through British American Tobacco Holdings

(Sri Lanka) BV)

84.13%



Ceylon Tobacco Company PLC

PRINCIPAL ACTIVITY

(Manufacture & Marketing of Cigarettes & Export of Cigarettes)

Subsidiaries

CTC Services Limited	Going Concern
CTC Briquettes Limited	In the process of liquidation
CTC Exports Limited	In the process of liquidation
CTC Leaf Exports Limited	In the process of liquidation
Advent International Limited	In the process of liquidation

REVIEW OF THE YEAR

The Chairman's Statement, Chief Executive Officer's Statement, Management Discussion & Analysis and Financial Review together with the financial statements highlight the Group's performance for the year under review and state of affairs as at 31st December 2008.

GROUP RESULTS FOR THE YEAR 2008 & APPROPRIATIONS

	Rs.000's	Rs.000's	Rs.000's
Retained profit as at 1st January 2008			373,816
Current year's profit after charging all expenses and providing for all known liabilities		2,760,709	
Interim dividends			
Interim dividends of Rs.12.55 per on the Issued Share Capital of 187,323,751 shares			
First Interim dividend - Rs. 1.85 per share paid on 23/05/08			
Second Interim dividend - Rs. 2.77 per share paid on 15/08/08			
Third Interim dividend - Rs. 3.13 per share paid on 08/12/08			
Fourth Interim dividend - Rs.4.80 per share paid on 26/01/09			
• Net dividend - 1st,2nd, 3rd and 4th Interim	2,115,986		
• Dividend Tax - 1st,2nd, 3rd and 4th Interim	234,927	(2,350,913)	409,796
Write back of unclaimed dividends			4,387
Balance carried forward to 2009			787,999

Interim dividends of Rs. 2,351 million have been paid from current year company profits after tax of Rs. 2,761 million.

The directors recommend the payment of a final dividend from current year company profits of Rs.2.13 for 2008 subject to approval by the Shareholders at the forthcoming Annual General Meeting (AGM) on 25th March 2009. The final dividend recommended for this financial year has not been recognised as a liability at the balance sheet date in conformity with Sri Lanka Accounting Standard 12- Events after the Balance Sheet Date.

CAPITAL EXPENDITURE

The Group capitalised a sum of Rs. 136 million in Property Plant & Equipment in its modernisation program. The movements in Property, Plant & Equipment for the year are shown in note 14 to the financial statements.

DONATIONS

Included in the current years result is a sum of Rs. 406 million on Corporate Social Responsibility activities and this includes Rs.200,000 paid to tax approved charities.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

MARKET STATISTICS - (as at 31st December)

	2008	2007	Growth %
• No of Shares	187,323,751	187,323,751	-
• Earnings per share - Rs.	14.74	10.11	45.8
• Net assets per share - Rs.	14.29	12.08	18.3
• Market price per share - Rs.	66.00	53.25	23.9
• Price earnings ratio	4.48	5.27	-15.0
• Dividends per share - Rs.	14.68	9.60	52.9
• Dividend yield %	22.24	18.03	23.3

Dividends per share includes the proposed final dividend of Rs. 2.13 per share to be approved at the AGM.

DIRECTORATE

The names of the Directors are disclosed in Pages 22 and 23 of the Annual Report.

Sandeep De Alwis who was appointed to the Board of Directors on 19 October 2005 resigned from the Board with effect from 01 September 2008.

Ariyaratne Hewage was appointed to the Board of Directors on 22 April 2008.

Bruce Richard Jalleh was appointed to the Board of Directors on 01 September 2008.

DIRECTORS PROPOSED FOR RE-ELECTION

RETIREMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Articles of Association of the Company, it was resolved, that Jayampathi Divale Bandaranayake and Vijaya Prasanna Malalasekera retire from the Board of Directors by rotation at the Annual

General Meeting and being eligible, be proposed for re-election.

In accordance with the Articles of Association of the Company, it was resolved that Bruce Richard Jalleh and Ariyaratne Hewage, who were appointed to the Board of Directors since the last Annual General Meeting also retire and being eligible, be proposed for re-election. In terms of the Articles of Association of the Company.

RELATED PARTY TRANSACTIONS (INCLUDING DIRECTORS' INTEREST IN CONTRACTS)

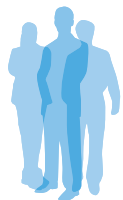
Related party transactions which includes Directors' interest in contracts are disclosed in note 26 to the financial statements and has been declared at the meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company or with the Group.

DIRECTORS' SHAREHOLDING

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

31st December	2008	2007
J.D. Bandaranayake	157,035	157,035
V.P. Malalasekera	7,564	7,564
S. Ratnayake	310	310
Total	<u>164,909</u>	<u>164,909</u>

No Director other than those disclosed above have any shareholding.



Report of the Directors

FUTURE DEVELOPMENTS

Future company developments are covered in the Chairman's statement, CEO's statement, and Financial Review.

RESERVES

Total Group reserves as at 31st December 2008 amount to Rs. 803 million comprising capital reserves of Rs. 15 million and revenue reserves of Rs. 788 million. Movements are shown in the Statement of Changes in Equity in the financial statements. This does not include the proposed final dividend of Rs. 399 million.

MAJOR SHAREHOLDINGS

The 20 major shareholders and percentages are disclosed on page 106 of the Annual Report.

EMPLOYEE SHARE OWNERSHIP PLANS

The Group has no share ownership plans as at 31st December 2008. The details of employee share option scheme of BAT group are explained in note 27 to the financial statements.

STATUTORY PAYMENTS

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

GOING CONCERN

The financial statements are prepared on the basis of going concern.

COMPLIANCE WITH REGULATIONS

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

GROUP AUDITORS

The Group Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co. 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.

Mustanser Ali Khan
Managing Director &
Chief Executive Officer

Bruce Jalleh
Finance Director

30th January 2009

Statement of Directors' Responsibilities

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

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

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

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

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

The Directors are also required to ensure that the Company has adequate

resources to continue in operation to justify applying the going concern basis in preparing these financial statements.

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

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

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

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

The Audit Committee of our Company meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting

issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

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

Compliance Report

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



Mustanser Ali Khan
Managing Director &
Chief Executive Officer



Bruce Jalleh
Finance Director

30th January 2009



Report of the Audit Committee

Composition of the Audit Committee

Two Independent Non-Executive Directors and the Finance Director of BAT Malaysia make up the Audit Committee. The Chairman of the Committee is a chartered accountant and a former senior partner of PricewaterhouseCoopers, Sri Lanka. The Chief Executive Officer, Finance Director and the external audit Partner attend the meetings on invitation with Company Risk and Control Manager performing the role of the Secretary.

Terms of reference

The responsibilities and objectives of the Committee as per the Terms of Reference approved in November 2007 are as follows:

1. Financial Statements

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

2. Internal Control and Business Risks

Review the effectiveness of the accounting, internal control and business risk systems of the Company.

3. Internal Audit

Evaluate the adequacy of the internal audit plan, monitor and

review the effectiveness of the internal audit service provided and the impact of matters reported by the internal audit.

4. External Audit

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

Meetings

The Committee met four times during the year. The attendance of the members are provided in the Corporate Governance report. The invitees attended the meetings regularly.

The Committee also met privately with external auditors (twice during the year) and internal auditors (once during the year) with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

Summary of Activities

Financial Reporting

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

Internal Controls and Business Risks

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

The Committee regularly monitors compliance with laws and regulations. The compliance with Standards of Business Conduct (SOBC) is reported to the Committee.

Internal audit

The Committee approved the internal audit plan at the beginning of the year and monitored the implementation of the plan. The internal audit reports were reviewed and action taken on recommendations was monitored.

External Audit

The Committee reviewed and approved the external audit strategy for 2008.

The Management Letter recommendations were reviewed together with the comments from the management.

The performance of the external auditors was reviewed and recommended the re-appointment of the external auditors.

The Committee also monitors the staggered five year rotation of the audit partner.

The audit Committee set a limit on, non Audit services provided by the external auditors and fees payable to ensure that their independence as auditors was not compromised.

Appointment of External Auditors

The Audit Committee has recommended to the Board of Directors that Messrs KPMG Ford Rhodes Thornton & Co. be re-appointed as external auditors of the Company for the financial year ending 31st December 2009.

Conclusion

During the year Mr. Chandra Jayaratne resigned from the Board and the Audit Committee after many years of

distinguished service. His experience as a senior director and chartered accountant was invaluable in the discharge of the responsibilities of the Committee.

The insights provided by Mr. Susantha Ratnayake and the expertise of Mr. Steve Rush in accounting, auditing and BAT group policies and practices, contributed much to the accomplishments of the Audit Committee.



Desamanya Deva Rodrigo
Chairman, Audit Committee.

30th January 2009

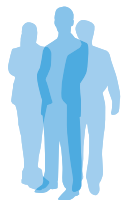
Audit Committee

Desamanya Deva Rodrigo

Steve Rush

Susantha Ratnayake





Board Compensation Committee Report

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

The scope of the committee includes the following

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

The Board Compensation Committee met on two occasions during the year 2008.

During the above meetings the focus was on the review of the salary survey results, market positioning, market anchor movements and the salary increments and methodology.

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

Jayampathi Bandaranayake

Chairman, Board Compensation Committee,

30th January 2009

Independent Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
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TO THE SHAREHOLDERS OF CEYLON TOBACCO COMPANY PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC, the consolidated financial statements of the Company and its subsidiaries as at December 31, 2008, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 84 to 103 of this Annual Report.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2008 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2008 and its profit and cash flow for the year then ended in accordance with Sri Lanka Accounting

Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at December 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Report on Other Legal and Regulatory Requirements

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

For Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS
Colombo.

30th January 2009

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A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

S. Sirikananathan FCA
Ms. M. P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C. Perera FCA

Financial Statements

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87	Statement of Changes in Equity
88	Notes to the Financial Statements



People. Productivity.

Income Statement

For the year ended 31st December		Group		Company	
		2008	2007	2008	2007
	Note	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
Gross revenue	8	54,763,053	46,827,070	54,763,053	46,827,070
Government levies	8	(43,583,250)	(38,116,035)	(43,583,250)	(38,116,035)
Net revenue	8	11,179,803	8,711,035	11,179,803	8,711,035
Other operating income	9	60,439	10,673	60,439	10,673
Raw material used		(1,616,930)	(1,775,654)	(1,616,930)	(1,775,654)
Employee benefits expenses	10	(1,018,581)	(916,974)	(1,018,581)	(916,974)
Depreciation and amortisation expenses		(224,175)	(224,995)	(224,138)	(224,859)
Other operating expenses		(4,210,648)	(2,995,382)	(4,210,648)	(2,995,380)
Total expenses		(7,070,334)	(5,913,005)	(7,070,297)	(5,912,867)
Profit from operations	10	4,169,908	2,808,703	4,169,945	2,808,841
Net interest income	11	444,793	285,585	444,793	285,585
Profit before income tax		4,614,701	3,094,288	4,614,738	3,094,426
Income tax expense	12	(1,853,992)	(1,200,091)	(1,853,992)	(1,200,091)
Profit for the year		<u>2,760,709</u>	<u>1,894,197</u>	<u>2,760,746</u>	<u>1,894,335</u>
Attributable to					
Equity holders of the Company		2,760,709	1,894,197		
Minority Interest		-	-		
Profit for the year		<u>2,760,709</u>	<u>1,894,197</u>		
Basic earnings per share (Rs.)	13	14.74	10.11	14.74	10.11

The above income statements are to be read in conjunction with notes to the financial statements on pages 88 to 103.

Balance Sheet

As at 31st December	Note	Group		Company	
		2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
Assets					
Non-current assets					
Property, Plant & Equipment	14	1,576,168	1,678,232	1,575,530	1,677,557
Intangible assets	15	20,879	34,460	20,879	34,460
Investments in subsidiaries	16	-	-	500	500
Receivables	17	184,858	193,804	184,858	193,804
Total non-current assets		1,781,905	1,906,496	1,781,767	1,906,321
Current assets					
Inventories	18	2,571,763	2,109,839	2,571,763	2,109,839
Trade & other receivables	17	956,966	1,236,977	958,999	1,239,101
Cash and cash equivalents	19	5,375,812	4,081,665	5,375,691	4,081,452
Total current assets		8,904,541	7,428,481	8,906,453	7,430,392
Total assets		10,686,446	9,334,977	10,688,220	9,336,713
Equity and liabilities					
Equity					
Stated capital	20	1,873,238	1,873,238	1,873,238	1,873,238
Capital reserves		15,000	15,000	15,000	15,000
Retained earnings		787,999	373,816	789,982	375,761
Total equity attributable to equity holders of the Company		2,676,237	2,262,054	2,678,220	2,263,999
Non-current liabilities					
Provision for employee benefits	21	6,319	8,143	6,319	8,143
Deferred tax liabilities	22	246,175	310,183	246,175	310,183
Total non-current liabilities		252,494	318,326	252,494	318,326
Current liabilities					
Trade and other payables	23	5,411,070	5,012,320	5,410,861	5,012,111
Current tax liabilities	24	1,377,481	883,365	1,377,481	883,365
Dividend payable	25	899,154	768,027	899,154	768,027
Unclaimed dividend	25.1	31,670	28,821	31,670	28,821
Bank overdraft	19	38,340	62,064	38,340	62,064
Total current liabilities		7,757,715	6,754,597	7,757,506	6,754,388
Total liabilities		8,010,209	7,072,923	8,010,000	7,072,714
Total equity and liabilities		10,686,446	9,334,977	10,688,220	9,336,713

The above Balance Sheets are to be read in conjunction with notes to the financial statements on pages 88 to 103.

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



Bruce Jalleh
Finance Director

On behalf of the Board,



Mustanser Ali Khan
Managing Director & Chief Executive Officer
Colombo



Bruce Jalleh
Finance Director

30th January 2009

Cash Flow Statement

	Group		Company	
For the year ended 31st December	2008	2007	2008	2007
Note	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
A. Cash Flows from Operating Activities				
Cash generated from operations (refer C)	4,759,165	4,002,632	4,759,257	4,002,622
Interest paid	(8,651)	(5,138)	(8,651)	(5,138)
Income tax paid	(1,423,884)	(958,952)	(1,423,884)	(958,952)
Gratuity paid	(1,824)	(3,077)	(1,824)	(3,077)
Net cash from operating activities	3,324,806	3,035,465	3,324,898	3,035,455
Cash Flows from Investing Activities				
Purchase of Property, Plant & Equipment	(257,218)	(187,581)	(257,218)	(187,581)
Purchase of intangible assets	(400)	(11,850)	(400)	(11,850)
Proceeds from sale of Property, Plant & Equipment	9,789	61	9,789	61
Interest received	453,444	290,723	453,444	290,723
Net cash from investing activities	205,615	91,353	205,615	91,353
Cash Flows from Financing Activities				
Dividends paid	(2,212,550)	(1,474,889)	(2,212,550)	(1,474,889)
Net cash used in financing activities	(2,212,550)	(1,474,889)	(2,212,550)	(1,474,889)
Net increase in cash & cash equivalents	1,317,871	1,651,929	1,317,963	1,651,919
Cash & cash equivalents at the beginning of the year	4,019,601	2,367,672	4,019,388	2,367,469
Cash & cash equivalents at the end of the year	5,337,472	4,019,601	5,337,351	4,019,388
B. Analysis of cash & cash equivalents at the end of the year				
Cash in hand & bank balances	33,461	226,650	33,340	226,437
Short term investments	5,342,351	3,855,015	5,342,351	3,855,015
Bank overdraft	(38,340)	(62,064)	(38,340)	(62,064)
	5,337,472	4,019,601	5,337,351	4,019,388
C. Cash generated from Operations				
Profit before income tax	4,614,701	3,094,288	4,614,738	3,094,426
Depreciation & amortisation expenses	224,175	224,995	224,138	224,859
Interest income	(453,444)	(290,723)	(453,444)	(290,723)
Interest expense	8,651	5,138	8,651	5,138
Write off of Property, Plant & Equipment/Intangible Assets	147,980	14,269	147,980	14,269
Provision for obsolete Inventories/Farmer Advances	7,234	2,572	7,234	2,572
Profit on disposal of Property, Plant & Equipment	(8,681)	(49)	(8,681)	(49)
Operating profit before working capital changes	4,540,616	3,050,490	4,540,616	3,050,492
Increase in inventories	(468,372)	(318,582)	(468,372)	(318,582)
(Increase)/Decrease in trade & other receivables	288,171	(674,211)	288,263	(674,219)
Increase in trade & other payables	398,750	1,944,935	398,750	1,944,931
	4,759,165	4,002,632	4,759,257	4,002,622

The above cash flow statements are to be read in conjunction with notes to the financial statements on pages 88 to 103.

Statement of Changes in Equity

Group (Rs.'000s)	Stated Capital	Capital Reserve	Retained Earnings	Total
Balance as at 1st January 2007	1,873,238	15,000	277,926	2,166,164
Profit for the year			1,894,197	1,894,197
Interim dividends			(1,798,307)	(1,798,307)
Balance as at 31st December 2007	1,873,238	15,000	373,816	2,262,054
Write back of unclaimed dividends (note 25.1)			4,387	4,387
Profit for the year			2,760,709	2,760,709
Interim dividends			(2,350,913)	(2,350,913)
Balance as at 31st December 2008	1,873,238	15,000	787,999	2,676,237

Company (Rs.'000)	Stated Capital	Capital Reserve	Retained Earnings	Total
Balance as at 1st January 2007	1,873,238	15,000	279,733	2,167,971
Profit for the year			1,894,335	1,894,335
Interim dividends			(1,798,307)	(1,798,307)
Balance as at 31st December 2007	1,873,238	15,000	375,761	2,263,999
Write back of unclaimed dividends (note 25.1)			4,387	4,387
Profit for the year			2,760,746	2,760,746
Interim dividends			(2,350,913)	(2,350,913)
Balance as at 31st December 2008	1,873,238	15,000	789,982	2,678,220

The above statement of changes in equity is to be read in conjunction with notes to the financial statements on pages 88 to 103.

Notes to the Financial Statements

1 REPORTING ENTITY

Ceylon Tobacco Company PLC is a public quoted company domiciled in Sri Lanka. The consolidated financial statements of the Company for the year ended 31st December 2008 comprises the Company and its subsidiaries (together referred to as the Group). The ultimate holding company is British American Tobacco plc.

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

2 APPROVAL OF THE FINANCIAL STATEMENT BY DIRECTORS

The financial statements were authorised for issue by the Board of Directors on 30th January 2009.

3 STATEMENT OF COMPLIANCE

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

4 BASIS OF PREPARATION

The consolidated financial statements are prepared on the historical cost basis.

The financial statements are prepared under historical cost convention and applied consistently with no adjustments being made for inflationary factors affecting the financial statements

The financial statements are presented in rupees, rounded to the nearest thousand.

5 COMPARATIVE INFORMATION

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

6 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by group entities except for Accounting policy 6.11.1 on defined benefit plan - Retirement Gratuity, which has been revised to be in compliance with Sri Lanka Accounting Standard 16 - Employee Benefits (SLAS 16), which became applicable to financial statements covering annual periods beginning on or after 1 July 2007 .

6.1 BASIS OF CONSOLIDATION

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of that enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Company	Status
Ceylon Tobacco Company PLC	Going Concern

Subsidiaries	
CTC Services Ltd	Going Concern
CTC Briquettes Ltd	In the process of liquidation
CTC Exports Ltd	In the process of liquidation
CTC Leaf Exports Ltd	In the process of liquidation
Advent International Ltd	In the process of liquidation

Intra-group balances and transactions, and any unrealised gains from the intra-group transactions are eliminated in preparing the consolidated financial statements.

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

CTC Corporate Social Responsibility Projects (Guarantee) Ltd

CTC incorporated the above company on 26th December 2007, of which liability is limited to a personal guarantee of Rs.100 for each Board Member, in order to carry out corporate social responsibility activities of CTC. Managing Director/CEO and Finance Director of CTC were appointed as the initial Directors of the above company. There were no operations in this company for the period ended 31st December 2008

This Company is not consolidated as it is not controlled by CTC.

6.2 FOREIGN CURRENCY

TRANSLATION

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

ASSETS AND BASES OF THEIR VALUATION

6.3 PROPERTY, PLANT AND EQUIPMENT

6.3.1 Recognition and measurement

Items of Property, Plant & Equipment are stated at cost of purchase less accumulated depreciation (refer note 6.3.3) and any accumulated impairment loss. Where an item of Property, Plant & Equipment comprises major components having different useful lives, they are accounted for as separate items of Property, Plant & Equipment.

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

6.3.2 Subsequent costs

The cost of replacing part of an item of Property, Plant and Equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its

cost can be measured reliably. The costs of day to day servicing of Property, Plant and Equipment are charged to the income statement as incurred.

When replacement costs are recognized in the carrying amount of an item of Property, Plant and Equipment, the remaining carrying amount of the replaced part is derecognized.

6.3.3 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of Property, Plant & Equipment. Freehold Land is not depreciated. The depreciation rates used are as follows:

	Depreciation %	Residual value %
Freehold buildings	2 1/2	2 1/2
Leasehold buildings	over the lease period	-
Building improvements	10	-
Plant & machinery	7	-
Furniture, fittings & canteen equipment	20	10
Office equipment & House equipment	20	10
Computer equipment	20	-
Vehicles & accessories, advertising equipment & agricultural equipment	25	10
Lab equipment	7	10

Depreciation is provided from the month of purchase up to the month of disposal of Property, Plant and Equipment.

6.4 INTANGIBLE ASSETS

6.4.1 Recognition and measurement

All computer software development and purchase costs incurred for use by the Company which are not integrally related to associated hardware, and can be, clearly identifiable, reliably measured and it's probable they will lead to future economic benefits, are included in the balance sheet under the category Intangible Assets and carried at cost less cumulative amortization and accumulated impairment losses.

6.4.2 Subsequent expenditure

Expenditure incurred on Intangible Assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

6.4.3 Amortisation

Intangible assets are amortised on a straight line basis in the income statement from the date when the asset is available for use, over the best estimate of its useful economic life.

Computer Software 20%

6.5 INVESTMENTS

Investment in Subsidiary Equity Investments in subsidiaries are treated as long term investments and are valued at cost. However, where necessary provision is made for diminution in value of investments which are considered other than temporary.

6.6 TRADE AND OTHER RECEIVABLES

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

6.7 INVENTORIES

Inventories are valued at the lower of cost and net realisable value after making due allowance for slow moving and obsolete items, on a basis consistently applied from year to year. Cost has been arrived at using the weighted average method. The value of raw materials includes the cost of leaf processed by the Company's leaf operations and wrapping material cost. Values of the work-in-progress consist of only the raw materials in progress. Finished goods value reflects the cost of manufacture, and all other stocks are included under the category of consumables.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

6.8 CASH & CASH EQUIVALENTS

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

6.9 IMPAIRMENT

The identifiable assets of the Company are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any, such indication exists the recoverable amount of the asset is estimated and shown in the balance sheet. The impairment loss is taken to the income statement.

LIABILITIES AND PROVISIONS

6.10 DIVIDENDS

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

6.11 EMPLOYEE BENEFITS

6.11.1 Defined benefit plan -

Retirement Gratuity

Up to 31 December 2007, the Company has funded by way of insurance policy for retirement gratuities and the premium for the year is charged as an expense in the consolidated financial statements in the period to which it relates. Gratuity liability was computed from the first year of service for all employees in conformity with Sri Lanka Accounting Standards 16 - Retirement Benefit Costs which was effective till 1 July 2007. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of five years of continual service.

Based on the revised Sri Lanka Accounting Standards 16 (Revised 2006) - Employee Benefits ("SLAS 16") which became effective from the financial year commencing after 1 July 2007, the Company (the subsidiary does not have employees) has adopted the actuarial valuation method from 1st January 2008 and has funded by way of an insurance policy for retirement gratuities based on the above method.

The comparative information has not been restated as the Standard has been applied prospectively from 1st January 2008.

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

6.11.2 Defined Contribution Plans -

Employees' Provident Fund and Employees' Trust Fund

All employees of the Company are members of Company Provident Fund and Employees' Trust Fund to which the company contributes 15% and 3% respectively of such employees' basic wage or salary. The Company contribution is recognised as an expense in the income statement as incurred.

6.12 PROVISION

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event.

INCOME STATEMENT

6.13 REVENUE

6.13.1 Goods Sold and Services

Rendered

Revenue from sale of goods is recognised in the income statements when the significant risks and rewards of ownership have been transferred to the buyer. Revenue for services rendered is recognised in the income statement in the period to

Notes to the Financial Statements (Contd.)

which they relate. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, associated cost or the possible return of goods.

6.13.2 Interest Income

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

6.14 EXPENSES

6.14.1 Operating Lease Payments

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

6.14.2 Interest and Other Expense

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

6.15 INCOME TAX EXPENSE

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

6.15.1 CURRENT TAX

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

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

6.15.2 DEFERRED TAX

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted by the reporting date.

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

6.16 SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing product or services (business segments), or in providing products or services within a particular economic environment (geographical segments), which is subject to risks and rewards that are different from those of other segments.

6.17 EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the

profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effect of all dilutive potential ordinary shares.

6.18 RELATED PARTY TRANSACTIONS

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

6.19 CASH FLOW STATEMENT

Cash flow statement has been prepared using the Indirect Method.

Interest paid is treated as part of the operating activities.

7 DIRECTORS RESPONSIBILITY STATEMENT

Directors acknowledge the responsibility for true and fair presentation of the financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards and the requirements of the Companies Act No.7 of 2007. Further elaboration of the Directors' responsibility is in note number 34 to the financial statements.

Notes to the Financial Statements (Contd.)

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
8 Net Revenue				
Local revenue	54,721,072	46,784,211	54,721,072	46,784,211
Export revenue	41,981	42,859	41,981	42,859
Gross revenue	<u>54,763,053</u>	<u>46,827,070</u>	<u>54,763,053</u>	<u>46,827,070</u>
Government levies*				
- Excise special provision tax	35,783,956	31,655,938	35,783,956	31,655,938
- Tobacco tax	32,256	31,494	32,256	31,494
- Social responsibility levy	536,759	316,193	536,759	316,193
- Value added taxes	7,227,322	6,109,364	7,227,322	6,109,364
- Turnover tax	2,957	3,046	2,957	3,046
Total government levies	<u>43,583,250</u>	<u>38,116,035</u>	<u>43,583,250</u>	<u>38,116,035</u>
Net revenue	<u>11,179,803</u>	<u>8,711,035</u>	<u>11,179,803</u>	<u>8,711,035</u>

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

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
9 Other Operating Income				
Gain on transaction of foreign currency	46,694	8,121	46,694	8,121
Profit on disposal of Property, Plant & Equipment	8,681	49	8,681	49
Sundry sales	<u>5,064</u>	<u>2,503</u>	<u>5,064</u>	<u>2,503</u>
	<u>60,439</u>	<u>10,673</u>	<u>60,439</u>	<u>10,673</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
10 Profit from Operations is stated after charging all the expenses including the following:				
Depreciation & amortisation expense	224,175	224,995	224,138	224,859
Non - Executive Directors' emoluments	9,253	7,777	9,253	7,777
Auditors' remuneration				
(a) Audit fee & expenses	2,932	2,393	2,922	2,383
(b) Audit related services fee & expenses	626	480	626	480
(c) Non audit services fee & expenses	2,506	1,486	2,506	1,486
Legal fees	82,186	14,078	82,186	14,078
Administration overheads	482,505	383,472	482,505	383,472
Donations & CSR Activities	405,763	120,321	405,763	120,321
Technical & Advisory fees	456,966	387,407	456,966	387,407
Property, Plant & Equipment/Intangible assets write off	147,980	14,269	147,980	14,269
Provision for obsolete Inventories/Farmer advances	7,234	2,572	7,234	2,572
Employee benefits expenses (note 10.1)	<u>1,018,581</u>	<u>916,974</u>	<u>1,018,581</u>	<u>916,974</u>
10.1 Employee benefits Expenses				
Executive Directors' emoluments	51,823	83,454	51,823	83,454
Salaries & wages	672,106	623,284	672,106	623,284
Gratuity insurance premium	202,799	61,681	202,799	61,681
Restructuring cost - Voluntary Separation Scheme	27,513	99,231	27,513	99,231
Contribution to Employees' Provident Fund	54,534	41,033	54,534	41,033
Contribution to Employees' Trust Fund	<u>9,806</u>	<u>8,291</u>	<u>9,806</u>	<u>8,291</u>
	<u>1,018,581</u>	<u>916,974</u>	<u>1,018,581</u>	<u>916,974</u>

Notes to the Financial Statements (Contd.)

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
11 Net Interest Income				
Interest income	453,444	290,723	453,444	290,723
Interest expense	(8,651)	(5,138)	(8,651)	(5,138)
	<u>444,793</u>	<u>285,585</u>	<u>444,793</u>	<u>285,585</u>

12 Income Tax Expense

Income tax has been provided on the taxable income of the company at 35% and 15 % on profit arising from domestic sales and export sales respectively.

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
Tax on profit for the period	1,918,000	1,205,200	1,918,000	1,205,200
Origination and reversal of temporary differences (note 22)	(64,008)	(5,109)	(64,008)	(5,109)
Income tax expense	<u>1,853,992</u>	<u>1,200,091</u>	<u>1,853,992</u>	<u>1,200,091</u>

Reconciliation of effective tax rate and the actual rate

	Group		Company	
	2008 %	2007 %	2008 %	2007 %
Actual rate	35.00	35.00	35.00	35.00
Depreciation in excess of Capital allowances	0.79	1.13	0.79	1.13
Disallowable expenditure	7.56	4.57	7.56	4.57
Allowable expenses	(1.30)	(0.87)	(1.30)	(0.87)
Income exempt from taxes	(1.00)	(1.45)	(1.00)	(1.45)
Deferred tax reversed	(0.49)	(0.06)	(0.49)	(0.06)
Others	(0.38)	0.46	(0.38)	0.46
Effective tax rate	<u>40.18</u>	<u>38.78</u>	<u>40.18</u>	<u>38.78</u>

13 Basic Earnings Per Share (EPS)

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

	Group		Company	
	2008	2007	2008	2007
Profit attributable to shareholders (Rs. 000)	2,760,709	1,894,197	2,760,746	1,894,335
Weighted average number of ordinary shares	187,323,751	187,323,751	187,323,751	187,323,751
Basic earnings per share (EPS) - Rs.	<u>14.74</u>	<u>10.11</u>	<u>14.74</u>	<u>10.11</u>

Notes to the Financial Statements (Contd.)

		Building					2008 Rs.'000s	2007 Rs.'000s
		Freehold Land	Freehold Buildings	Improve- ments	Leasehold Buildings	Machinery/ Equipment	Motor Vehicles	
14	Property, Plant & Equipment Group							
	Cost							
	Balance as at							
	1st January 2008	98,595	455,117	65,516	57,719	2,643,585	90,592	3,411,124
	Additions					117,619	17,866	135,485
	Disposals						(11,075)	(11,075)
	Adjustments			1,172		(12,265)		(11,093)
	Write off	(20)	(103,716)	(19,989)	(5,720)	(281,995)	(1,350)	(412,790)
	Balance as at							
	31st December 2008	98,575	351,401	46,699	51,999	2,466,944	96,033	3,111,651
	Depreciation							
	Balance as at							
	1st January 2008	-	231,738	22,763	54,475	1,462,898	67,009	1,838,883
	Charge for the year		7,831	6,555	282	188,324	7,289	210,281
	Disposals						(9,967)	(9,967)
	Adjustments		(209)	(144)	5	(10,745)		(11,093)
	Write off		(31,767)	(11,409)	(5,321)	(215,185)	(1,215)	(264,897)
	Balance as at							
	31st December 2008	-	207,593	17,765	49,441	1,425,292	63,116	1,763,207
	Net book value before work-in-progress as at							
	31st December 2008	98,575	143,808	28,934	2,558	1,041,652	32,917	1,348,444
	Capital work-in-progress at cost					227,724		227,724
	Carrying Amount							
	Net book value as at							
	31st December 2008	98,575	143,808	28,934	2,558	1,269,376	32,917	1,576,168
	Net book value as at							
	31st December 2007	98,595	223,379	42,753	3,244	1,286,759	23,502	1,678,232

Notes to the Financial Statements (Contd.)

		Freehold	Freehold	Building	Leasehold	Machinery/	Motor	2008	2007
		Land	Buildings	Improvements	Buildings	Equipment	Vehicles	Rs.'000s	Rs.'000s
14	Property, Plant & Equipment (contd.)								
	Company								
	Cost								
	Balance as at 1st January 2008	98,025	452,382	65,516	57,719	2,643,585	90,592	3,407,819	3,220,004
	Additions					117,619	17,866	135,485	247,926
	Disposals						(11,075)	(11,075)	(123)
	Adjustments			1,172		(12,265)		(11,093)	-
	Write off	(20)	(103,716)	(19,989)	(5,720)	(281,995)	(1,350)	(412,790)	(59,988)
	Balance as at								
	31st December 2008	<u>98,005</u>	<u>348,666</u>	<u>46,699</u>	<u>51,999</u>	<u>2,466,944</u>	<u>96,033</u>	<u>3,108,346</u>	<u>3,407,819</u>
	Depreciation								
	Balance as at 1st January 2008	-	229,109	22,763	54,475	1,462,897	67,009	1,836,253	1,670,863
	Charge for the year		7,794	6,555	282	188,324	7,289	210,244	211,225
	Disposals						(9,967)	(9,967)	(111)
	Adjustments		(209)	(144)	5	(10,745)		(11,093)	-
	Write off		(31,767)	(11,409)	(5,321)	(215,185)	(1,215)	(264,897)	(45,724)
	Balance as at								
	31st December 2008	<u>-</u>	<u>204,927</u>	<u>17,765</u>	<u>49,441</u>	<u>1,425,291</u>	<u>63,116</u>	<u>1,760,540</u>	<u>1,836,253</u>
	Net book value before								
	work-in-progress as at								
	31st December 2008	<u>98,005</u>	<u>143,739</u>	<u>28,934</u>	<u>2,558</u>	<u>1,041,653</u>	<u>32,917</u>	<u>1,347,806</u>	<u>1,571,566</u>
	Capital work-in-progress at cost					227,724		227,724	105,991
	Carrying Amount								
	Net book value as at								
	31st December 2008	<u>98,005</u>	<u>143,739</u>	<u>28,934</u>	<u>2,558</u>	<u>1,269,377</u>	<u>32,917</u>	<u>1,575,530</u>	
	Net book value as at								
	31st December 2007	<u>98,025</u>	<u>231,985</u>	<u>47,951</u>	<u>3,530</u>	<u>1,303,576</u>	<u>30,410</u>		<u>1,677,557</u>

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

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

Fully depreciated assets which are still in use by the company are as follows

Cost 2008	<u>121,327</u>	<u>44,464</u>	<u>239,153</u>	<u>404,944</u>
Cost 2007	113,865	48,013	271,954	433,832

Notes to the Financial Statements (Contd.)

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
15 Intangible Assets				
Cost				
Balance as at 1st January	83,485	71,741	83,485	71,741
Additions	400	11,850	400	11,850
Write off	(1,110)	(106)	(1,110)	(106)
Balance as at 31st December	<u>82,775</u>	<u>83,485</u>	<u>82,775</u>	<u>83,485</u>
Amortisation				
Balance as at 1st January	49,025	35,492	49,025	35,492
Charge for the year	13,894	13,634	13,894	13,634
Write off	(1,023)	(101)	(1,023)	(101)
Balance as at 31st December	<u>61,896</u>	<u>49,025</u>	<u>61,896</u>	<u>49,025</u>
Net book value as at 31st December	<u>20,879</u>	<u>34,460</u>	<u>20,879</u>	<u>34,460</u>

Intangible assets represent computer software which are not integrally related to associated hardware as explained in note 6.4.

	Share Holding %	No of Shares	Company	
			2008 Rs.'000s	2007 Rs.'000s
16 Investments in Subsidiaries				
CTC Briquettes Ltd*	100	100	-	-
CTC Exports Ltd*	100	50,000	-	-
CTC Services Ltd	100	50,000	500	500
CTC Leaf Exports Ltd*	100	6,000,000	-	-
Advent International Ltd*	100	10,000	-	-
			<u>500</u>	<u>500</u>

* All the above Companies are incorporated in the Democratic Socialist Republic of Sri Lanka. Except for CTC Services Limited all the other subsidiaries are dormant and are in the process of being liquidated. Thus they have been excluded from consolidation. Assets, liabilities and equity of these companies are not material to the Group financial statements. Investments in these companies have been fully written off in the books of Ceylon Tobacco Company PLC.

17 Receivables

Receivables shown in the Balance Sheet include the following:

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
17.1 Staff Loans				
Balance as at 1st January	206,960	192,862	206,960	192,862
Loans granted during the year	76,441	78,600	76,441	78,600
Recoveries made during the year	(72,351)	(64,502)	(72,351)	(64,502)
Balance as at 31st December	211,050	206,960	211,050	206,960
Receivable due within one year*	(26,192)	(13,156)	(26,192)	(13,156)
Receivables due after one year	<u>184,858</u>	<u>193,804</u>	<u>184,858</u>	<u>193,804</u>

*Receivables due within one year is included under "Other receivables" in note 17.2.

Staff loans are disbursed to employees of the Company excluding directors, 57 employees have been granted loans during the year (2007 - 57 employees).

Notes to the Financial Statements (Contd.)

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
17.2 Trade & other receivables				
Trade receivables	819,365	1,081,411	819,365	1,081,411
Other receivables	52,260	127,833	51,188	127,348
Prepayments	16,783	6,122	16,783	6,122
Receivables from subsidiary	-	-	3,105	2,609
Advances to farmers	79,598	31,865	79,598	31,865
Provision for farmer bad debts (note 17.3)	(11,040)	(10,254)	(11,040)	(10,254)
	<u>956,966</u>	<u>1,236,977</u>	<u>958,999</u>	<u>1,239,101</u>
17.3 Provision for farmer bad debts				
Balance as at 1st January	10,254	12,676	10,254	12,676
Provision/(reversal) during the year	786	(2,422)	786	(2,422)
Balance as at 31st December	<u>11,040</u>	<u>10,254</u>	<u>11,040</u>	<u>10,254</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
18 Inventories				
Raw materials	647,652	924,724	647,652	924,724
Work-in-progress	23,765	11,327	23,765	11,327
Finished goods	1,721,624	1,000,810	1,721,624	1,000,810
Consumables	324,185	311,993	324,185	311,993
Provision for obsolete consumables (note 18.1)	(145,463)	(139,015)	(145,463)	(139,015)
	<u>2,571,763</u>	<u>2,109,839</u>	<u>2,571,763</u>	<u>2,109,839</u>
18.1 Provision for obsolete consumables				
Balance as at 1st January	139,015	134,469	139,015	134,469
Provision made during the year	6,448	4,546	6,448	4,546
Balance as at 31st December	<u>145,463</u>	<u>139,015</u>	<u>145,463</u>	<u>139,015</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
19 Cash & Cash Equivalents				
Cash in hand & bank balances	33,461	226,650	33,340	226,437
Short term investments*	5,342,351	3,855,015	5,342,351	3,855,015
Cash & cash equivalents	5,375,812	4,081,665	5,375,691	4,081,452
Bank overdraft	(38,340)	(62,064)	(38,340)	(62,064)
Cash and cash equivalents in the cash flow statement	<u>5,337,472</u>	<u>4,019,601</u>	<u>5,337,351</u>	<u>4,019,388</u>

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

	2008 Rs.'000s	2007 Rs.'000s
20 Stated Capital		
Issued & Fully Paid Capital as at 1st January (187,323,751 ordinary shares)	1,873,238	1,873,238
Balance as at 31st December (187,323,751 ordinary shares)	<u>1,873,238</u>	<u>1,873,238</u>

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

Notes to the Financial Statements (Contd.)

21 Provision for Employee Benefits

Retiring gratuity is a defined benefit plan - covering employees of the Company. The Company's Pre 1992 liability amounting to Rs. 6.3 million is un-funded and was provided for in the books of the Company.

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
Balance as at 1st January	8,143	11,220	8,143	11,220
Payments for the year	(1,824)	(3,077)	(1,824)	(3,077)
Balance as at 31st December	6,319	8,143	6,319	8,143

Subsequent to 1992, the externally funded policy purchased from Eagle Insurance PLC, covers 350 staff attached to the Company.

An actuarial valuation was carried out as at 10 January 2009 by Mr. K K Wadhwa, a fellow member of the Institute of Actuaries of India and an associate member of the Institute of Actuaries, UK. The valuation method used by the actuary is the "Project Unit Credit Method", the method recommended by Sri Lanka Accounting Standard 16 "Employee Benefits" (SLAS 16).

The premium for the current year including the life cover is Rs. 202.8 million (2007- Rs 61.7 million)

Results of the actuarial valuation indicate the following:

	2008 Rs.'000s	2007 Rs.'000s
Present value of the Fund assets (note 21.2)	665,387	457,226
Fair value of defined benefit obligation (note 21.1)	(626,793)	(412,179)
Surplus	38,594	45,047

The above surplus is not recognised in the financial statements as it is within the corridor of 10% in compliance with the accounting policy set out note 6.11.1

Eagle Insurance Company PLC has confirmed that the Insurance Fund meets the definition of a "Qualified Insurance Policy", as set out in Sri Lanka Accounting Standard 16 "Employee Benefits". Therefore, the Fund assets and defined benefit obligations have been netted off in the financial statements.

21.1 Movement in the present value of defined benefit obligations

	2008 Rs.'000s	2007 Rs.'000s
Liability for defined benefit obligations at 1 January	412,179	438,025
Actuarial (gains) / losses	165,624	(22,528)
Benefits paid by the plan	(43,453)	(84,700)
Current service costs and interest	92,443	81,382
Liability for defined benefit obligations at 31 December	626,793	412,179

21.2 Movement in Fund assets

Fair value of plan assets at 1 January	457,226	447,055
Contributions paid into the plan	200,472	59,325
Benefits paid by the plan	(43,453)	(84,700)
Actuarial gains / (losses)	7,707	(2,454)
Expected return on plan assets	43,436	38,000
Fair value of plan assets at 31 December	665,387	457,226

The above amount is invested in the Insurance Fund (Fund) of Eagle Insurance Co. PLC

Notes to the Financial Statements (Contd.)

21.3 Actuarial assumptions

Principal actuarial assumptions at the reporting date,

	2008 %	2007 %
Discount rate at 31st December	16	17
Expected return on Fund assets at 1st January	10.5	9.5
Future salary increases	20	13
The overall expected long-term rate of return on assets	10.5	9.5

Assumptions regarding future mortality are based on A49-52 (Ultimate) UK Assured Lives Table

Pension fund liabilities have been fully funded through an insurance policy of Eagle Insurance PLC. Pension paid to past Directors in 2008 amounted to Rs. 2 million (2007- Rs. 2.4 million) and other pensioners Rs. 13.6 million (2007- Rs. 15.2 million).

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
22 Deferred Tax Liabilities				
Balance as at 1st January	310,183	315,292	310,183	315,292
Origination and Reversal of temporary differences (note 12)	(64,008)	(5,109)	(64,008)	(5,109)
Balance as at 31st December	<u>246,175</u>	<u>310,183</u>	<u>246,175</u>	<u>310,183</u>
Deferred Tax Liabilities				
Property, Plant & Equipment	243,672	306,757	243,672	306,757
Intangible assets	4,714	6,276	4,714	6,276
	<u>248,386</u>	<u>313,033</u>	<u>248,386</u>	<u>313,033</u>
Deferred Tax Assets				
Retiring gratuity	(2,211)	(2,850)	(2,211)	(2,850)
Net deferred tax liabilities	<u>246,175</u>	<u>310,183</u>	<u>246,175</u>	<u>310,183</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
23 Trade & Other Payables				
Trade payables	84,679	67,102	84,679	67,102
Other payables including government levies	3,168,385	3,209,829	3,168,176	3,209,620
Accruals & provisions	1,957,446	1,349,194	1,957,446	1,349,194
Payable to Group entities (note 23.1)	200,560	386,195	200,560	386,195
	<u>5,411,070</u>	<u>5,012,320</u>	<u>5,410,861</u>	<u>5,012,111</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
23.1 Payable to Group entities				
BAT (UK & Export) Ltd	130,097	353,923	130,097	353,923
BAT Asia Pacific Region Ltd.	38,201	26,267	38,201	26,267
British American Shared Services	19,775	-	19,775	-
BAT (Malaysia) Berhad	12,487	-	12,487	-
Anzpac Services (Pvt) Ltd.	-	6,005	-	6,005
	<u>200,560</u>	<u>386,195</u>	<u>200,560</u>	<u>386,195</u>

Also refer note 26 to the financial statements

Notes to the Financial Statements (Contd.)

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
24 Current Tax Liabilities				
Balance as at 1st January	883,365	637,117	883,365	637,117
Tax on profit for the period	1,918,000	1,205,200	1,918,000	1,205,200
Paid during the year	(1,423,884)	(958,952)	(1,423,884)	(958,952)
Balance as at 31st December	<u>1,377,481</u>	<u>883,365</u>	<u>1,377,481</u>	<u>883,365</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
25 Dividends Payable				
Balance as at 1st January	768,027	449,577	768,027	449,577
Dividends declared during the year	2,350,913	1,798,307	2,350,913	1,798,307
Dividends paid during the year	(2,212,550)	(1,474,889)	(2,212,550)	(1,474,889)
Transfers to unclaimed dividends (note 25.1)	(7,236)	(4,968)	(7,236)	(4,968)
Balance as at 31st December	<u>899,154</u>	<u>768,027</u>	<u>899,154</u>	<u>768,027</u>

	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2008 Rs.'000s
Dividend Per Share Rs.	1.85	2.77	3.13	4.80	12.55
Dividends to Shareholders	311,901	467,009	527,837	809,239	2,115,986
Tax deducted at source	<u>34,648</u>	<u>51,878</u>	<u>58,486</u>	<u>89,915</u>	<u>234,927</u>
	<u>346,549</u>	<u>518,887</u>	<u>586,323</u>	<u>899,154</u>	<u>2,350,913</u>

	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2007 Rs.'000s
Dividend Per Share Rs.	1.40	1.90	2.20	4.10	9.60
Dividends to Shareholders	236,028	320,329	370,907	691,236	1,618,500
Tax deducted at source	<u>26,225</u>	<u>35,586</u>	<u>41,205</u>	<u>76,791</u>	<u>179,807</u>
	<u>262,253</u>	<u>355,915</u>	<u>412,112</u>	<u>768,027</u>	<u>1,798,307</u>

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
25.1 Unclaimed Dividends				
Balance as at 1st January	28,821	23,853	28,821	23,853
Transfers during the year	7,236	4,968	7,236	4,968
Write back during the year	(4,387)	-	(4,387)	-
Balance as at 31st December	<u>31,670</u>	<u>28,821</u>	<u>31,670</u>	<u>28,821</u>

Notes to the Financial Statements (Contd.)

26 Related Party Transactions

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 30 "Related Party Disclosures (revised 2005)", the details of which are reported below. The consideration for the goods and services provided has been paid or accrued at market prices prevailing at that time.

26.1 Transactions with Group Entities

a) Name of the Company	Nature of transaction	Nature of Relationship	Transaction value	
			2008 Rs.'000s	2007 Rs.'000s
BAT Singapore	Cigarette export	BAT Group Co.	41,981	42,860
BAT International	Cigars import	BAT Group Co.	1,744	9,341
BAT UK	Technical & Advisory fees	BAT Group Co.	456,966	387,407
ITC Limited	Import of printed materials & leaf	BAT Associate Co.	8,402	14,442
British American Shared Services (BASS)	IT related services	BAT Group Co.	72,873	65,713
BAT Singapore	Import of cigarettes and leaf	BAT Group Co.	38,845	19,448
Anzpac Services (Pvt) Ltd.	Import of printed materials	BAT Group Co.	-	152,675
Tobacco Importers & Manufactures	Import of machinery	BAT Group Co.	-	2,173
BAT Asia Pacific Region Ltd	Reimbursement of expenditure	BAT Group Co.	152,980	110,841
BAT (Malaysia) Berhad	Reimbursement of expenditure	BAT Group Co.	16,544	6,732

b) The amounts payable to Group entities are disclosed in Note 23.1

26.2 Transactions with Other Related Entities

The following Directors are in the directorate of those companies, with which CTC has carried out businesses during the year. All transactions were negotiated and carried out in the ordinary course of business.

		2008 Rs.'000s	2007 Rs.'000s
J D Bandaranayake			
- Sampath Bank PLC	Provision of banking services	205	746
- Union Assurance PLC	Provision of Insurance Products	2,294	78,104
- Hayleys PLC	Provision of industrial, agro and consumer products	6,821	4,485
V P Malalasekara			
- Brown & Co PLC	Provision of office equipment	15	22
S Ratnayake			
- John Keells Computer Services (Pvt) Limited	Purchase of computer equipment	7,556	4,547
- DHL Keells (Pvt) Limited	Provision of courier services	7,051	5,207
- Jaykay Marketing Services Limited	Provision of marketing services	18,597	6,154
- Ceylon Holiday Resorts Limited	Provision of leisure services	2,094	1,128
- Habarana Lodge	Provision of leisure services	421	-
- Habarana Walk Inn	Provision of leisure services	196	-
- Kandy Walk Inn	Provision of leisure services	300	379
- Asian Hotels & Properties PLC	Provision of leisure services	602	197
- Trans Asia Hotels PLC	Provision of leisure services	6,056	7,025
- Cinnamon Hotels & Resorts (Pvt) Limited	Provision of leisure services	5,892	7,247
- Mackinnons American Express Travel Limited	Management of air travel	45,279	-
Desamanya P.D. Rodrigo			
- Holcim Lanka Limited	Waste disposal charges paid	400	19

Also refer note 23.1 to the financial statements.

Notes to the Financial Statements (Contd.)

26.3 Transactions with Key Management Personnel ("KMP") of the Company

The Company being the ultimate parent of its subsidiaries listed out in Note No.16, and the Board of directors of the Company have the authority and responsibility of planning, directing and controlling the activities of the Group. Accordingly, the Board of directors of the Company have been identified as the key management personnel ("KMP") of the Company and Group.

The ultimate holding company is British American Tobacco plc ("BAT"). The Board of Directors of BAT are also identified as the KMP of the Company and its subsidiaries

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

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

27 Employee Share Option Scheme

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

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

28 Commitments

Capital Commitments

There are no Capital Commitments contracted but not provided for in the financial statements of the Company or in the Group accounts as at 31st December 2008. (2007 - Nil)

Other Commitments

The letters of credit, negotiated by the Company as at the year-end - Rs. 230.9 million (2007 - 21.7 Mn).

29 Contingent Liabilities

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

Guarantees issued to Director-General of Customs in lieu of custom duty payable on clearing consignments Rs. 26.3 million (2007 Rs. 18.9 million)

Guarantees issued to Dynacom Engineering (Pvt) Ltd for the safety of trunking Mobile units Rs. 0.3 million

Outstanding Litigation

A petition has been filed in the commercial high court (civil) of Sri Lanka by an Ex-distributor claiming a compensation of Rs. 200 million for terminating the distributorship. The Company has filed the objections and affidavit and the written submissions are due on 10th February 2009.

In the opinion of the Directors and the Company's lawyers pending litigation against the Company except for those disclosed above will not have material impact on the reported financial results or the future operations of the Company.

30 Operating Leases

Cancellable operating lease rental payables are as follows:

	2008 Rs.'000s	2007 Rs.'000s
Less than one year	26,419	26,569
Between one and five years	77,445	40,690
More than five years	23,340	20,509

Notes to the Financial Statements (Contd.)

31 Employee Numbers

The total number of permanent employees of the Group as at 31st December 2007 amounted to 308 (2007 - 323)

32 Segmental Analysis

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

	Group		Company	
	2008 Rs.'000s	2007 Rs.'000s	2008 Rs.'000s	2007 Rs.'000s
Geographical Analysis of Gross Turnover				
Sri Lanka	54,721,072	42,784,211	54,721,072	42,784,211
Africa & Middle East	-	7,790	-	7,790
Asia	41,981	35,069	41,981	35,069
	<u>54,763,053</u>	<u>42,827,070</u>	<u>54,763,053</u>	<u>42,827,070</u>

33 Post Balance Sheet Events

Proposed dividends

The Board of Directors has recommended a final dividend of Rs. 2.13 per share amounting to Rs. 399 million for the year ended 31 December 2008. This is to be approved at the Annual General Meeting to be held on 25 March 2009. Once approved by shareholders, the final dividend will be payable on 1 April 2009. In accordance with Sri Lanka Accounting Standard No.12 (Revised) "Events After the Balance Sheet Date", this proposed final dividend has not been recognised as a liability at 31 December 2008.

As Required by Section 56 of the Companies Act No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with Section 57 prior to recommending the final dividend. A statement of solvency completed and duly signed by the directors on 27 January 2009 has been audited by M/s KMPG Ford Rhodes Thornton & Co.

There were no other material events occurring after the balance sheet date as at 31 December 2008 that require adjustments to or disclosure in the financial statements.

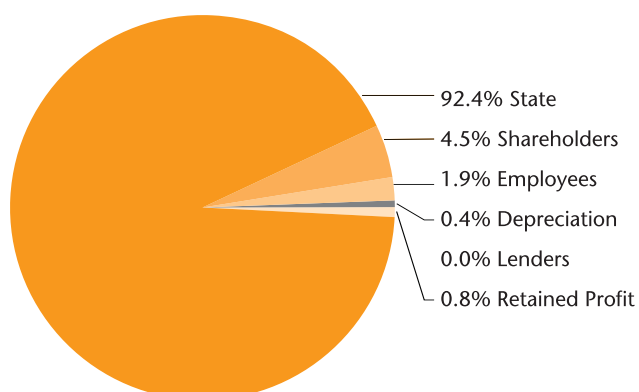
34 Directors Responsibility

The Directors take responsibility for the preparation and presentation of the financial statements. The Statement of Directors' Responsibilities is in page 77 of this Annual Report.

Statement of Value Added

	2008 Rs.'000s	2007 Rs.'000s
Gross Revenue	54,763,053	46,827,070
Purchase cost & services	(2,573,176)	(2,295,942)
Interest Income	453,444	290,723
	<u>52,643,321</u>	<u>44,821,851</u>
State	48,631,205	41,780,547
Shareholders	2,350,913	1,798,307
Employees	1,018,581	916,974
Depreciation	224,175	224,995
Lenders	8,651	5,138
Retained Profit	<u>409,796</u>	<u>95,890</u>
	<u>52,643,321</u>	<u>44,821,851</u>

2008



Shareholder Information

Ordinary Shareholding

Stated Capital - Rs.

1,873,237,510

No of Shareholders as at 31 December 2008

4,118 (2007- 4,209)

Categorisation of Shareholding

Shareholding Range	Resident			Non Resident			Total		
	No of Share-holders	No of Shares	%	No of Share-holders	No of Shares	%	No Share-holders	No of Shares	%
1 - 1000	2,558	692,890	0.37	26	7,505	0.00	2,584	700,395	0.37
1001 - 5,000	1,182	2,757,168	1.47	28	81,742	0.04	1,210	2,838,910	1.52
5,001 - 10,000	145	1,019,443	0.54	12	98,067	0.05	157	1,117,510	0.60
10,001 - 50,000	111	2,110,275	1.13	15	309,801	0.17	126	2,420,076	1.29
50,001 - 100,000	14	1,044,249	0.56	6	418,500	0.22	20	1,462,749	0.78
100,001 - 500,000	10	2,466,770	1.32	7	1,436,600	0.77	17	3,903,370	2.08
500,001 - 1,000,000	1	703,900	0.38	1	1,000,000	0.53	2	1,703,900	0.91
1,000,001 & above	-	-	-	2	173,176,841	92.45	2	173,176,841	92.45
Total	4,021	10,794,695	5.76	97	176,529,056	94.24	4,118	187,323,751	100.00

Composition of Shareholders

	No of Shares	%
Directors and Spouses	164,909	0.09
Parent Holding - Non Resident	157,590,931	84.13
Public Holding - Resident	10,629,786	5.67
Public Holding - Non Resident	18,938,125	10.11
	<u>187,323,751</u>	<u>100.00</u>

	No of Shares	%	No of Shareholders	%
Individuals	9,528,963	5.09	3,919	95.17
Institutions	177,794,788	94.91	199	4.83
	<u>187,323,751</u>	<u>100.00</u>	<u>4,118</u>	<u>100.00</u>

CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

Year	2008	2007
No of share transactions for the year	1,830	1,831
No of Shares traded	3,724,900	3,047,400
Price Movements Rs.		
Highest	80.00	70.00
Lowest	53.00	52.00
Closing Price	66.00	53.25
Market Capitalisation (Rs. Mn)	12,363	9,975
Closing Price * Share Capital		

Shareholder Information

20 Largest shareholders as at 31 December 2008

Name	2008	%	2007	%
	No of Shares		No of Shares	
British American Tobacco Holdings (Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
F T R Holding S A	15,585,910	8.32	15,585,910	8.32
Hiran Vasantha De Alwis	-	-	1,000,900	0.53
Belmont Agents Limited	1,000,000	0.53	1,000,000	0.53
Niraj Rasikalal Somaiya	-	-	865,600	0.46
Mr Yonmerrannage Simon Hewage Indra Kumar Silva	703,900	0.38	703,900	0.38
HSBC Ltd/ National Equity Fund	426,400	0.23	-	-
Eagle Insurance Company Ltd/ A/c No. 3	325,000	0.17	-	-
Freudenberg Shipping Agencies Limited	321,200	0.17	-	-
Renuka Holdings Limited	297,560	0.16	222,560	0.12
Madam Jasbinderjit Kaur	250,600	0.13	293,100	0.16
National Asset Management Limited	250,000	0.13	-	-
Miss Neesha Harnam	248,100	0.13	157,100	0.08
Free Lanka Trading Company Limited	225,000	0.12	-	-
Mr. Avtar Singh Sandhu	205,100	0.11	188,500	0.10
Harnam Holdings SDN BHD	203,900	0.11	200,600	0.11
Mr Duleep Fairlie George Dalpethado	198,259	0.11	159,006	0.08
HSBC INTL NOM Ltd - SSBT-DEU	195,600	0.10	195,600	0.10
Dr. Harnam Singh Mantha Singh	183,300	0.10	162,600	0.09
Mr William Ryan Herbert Perera	180,440	0.10	180,440	0.10
HSBC INTL NOM Ltd- UBS AG	150,000	0.08	150,000	0.08
Mr Jayampathi Divale Bandaranayake	122,944	0.07	122,944	0.07
Sub Total	<u>178,664,144</u>	<u>95.38</u>	<u>178,779,691</u>	<u>95.44</u>
Balance held by 4,098 shareholders (2007- 4,192 shareholders)	<u>8,659,607</u>	<u>4.62</u>	<u>8,544,060</u>	<u>4.56</u>
Total Shares	<u>187,323,751</u>	<u>100.00</u>	<u>187,323,751</u>	<u>100.00</u>

Notice of Meeting

NOTICE IS HEREBY given that the Seventy Eighth Annual General Meeting of Ceylon Tobacco Company PLC will be held at the Auditorium of Ceylon Tobacco Company PLC, No. 178, Srimath Ramanathan Mawatha, Colombo 15, on Wednesday, 25 March 2009 at 10.00 am for the following purposes :

- (i) To receive consider and adopt the Report of the Directors and the Financial Statements for the year ended 31 December 2008 and the Report of the Auditors thereon.
- (ii) To declare a Dividend.
- (iii) To re-elect Directors.
- (iv) To authorise the Directors to determine and make donations.
- (v) To re-appoint Auditors and to authorise Directors to determine their remuneration.

By Order of the Board



Dinesh Dharmadasa
Company Secretary

30th January 2009

Notice of Meeting

NOTES

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

IMPORTANT

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

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

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

N.B.

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

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

Form of Proxy

(Please read the notes carefully before completing this form)

I/We the undersigned (please print) of

 being a member/members of the Company, hereby appoint:

Jayampathi Divale Bandaranayake	whom failing
Mustanser Ali Khan	whom failing
Vijaya Prasanna Malalasekera	whom failing
Bruce Richard Jalleh	whom failing
Desamanya Parakrama Devasiri Rodrigo	whom failing
Susantha Ratnayake	whom failing
Mobasher Raza	whom failing
Ariyaratne Hewage	

..... of

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 Wednesday, 25th March 2009 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 2008.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Dividend.	<input type="checkbox"/>	<input type="checkbox"/>
(iii) To re-elect V P Malalasekera who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect J D Bandaranayake who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect B R Jalleh who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect A Hewage who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To re-appoint the Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of Two Thousand and Nine.

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

Instructions as to completion :

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to the resolution or make any statement in regard thereto on behalf of any Shareholder.
2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.
3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution. If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If Form of Proxy is signed by an Attorney, the relative Power-of- Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No.178, Srimath Ramanathan Mawatha, Colombo 15, before 10.00 am on 23 March 2009.
7. The full name and address of the Proxy and the Shareholder appointing the Proxy should be entered legibly in the Form of Proxy.

Corporate Information

Name of the Company

Ceylon Tobacco Company PLC
Reg. No. PQ 29

Registered Office

178, Srimath Ramanathan Mawatha,
Colombo 15

Legal Form

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

Registrars

SSP Corporate Services (Private) Limited

Legal Advisors

Messrs Julius & Creasy
Attorneys-at-Law
Messrs FJ & G De Saram
Attorneys-at-Law

Auditors

Messrs KPMG Ford, Rhodes,
Thornton & Co.

Bankers

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

Subsidiary Companies

Advent International Limited
CTC Briquettes Limited
CTC Exports Limited
CTC Leaf Exports Limited
CTC Services Limited

Holding Company

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

