Crop to Consumer

PRODUCTIVITY

CEYLON TOBACCO COMPANY

A member of the British American Tobacco Group

ANNUAL REPORT 2009

PROPROD

Productivity. It's an attitude.
An attitude of getting things done to their fullest potential.
An attitude that gives birth to innovations that change things for the better.
From what we produce, to how we produce it.
From how we do business, to how we live.
That's why we are...
Pro-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.

UCTIVITY

Milestones

2009
- 'Viceroy' migration to 'Pall Mall'
- Ceylon Chamber of Commerce - Best Corporate Citizens Award
  - Among Top Ten
  - Special projects recognition for SADP
- 'Business Today' Top Ten Company

2008
- HRM gold award
- Dunhill manufacturing localisation
- ACCA Award for Sustainability Reporting
- "Business Today" Top Ten Company
- Platinum Status for Corporate Governance (Inaugural Award)

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

100 YEARS OF EXCELLENCE

Financial Highlights

	2009 Rs. Mn.	2008 Rs. Mn.
Gross revenue (including VAT)	58,079	54,763
Government levies	45,726	43,583
Net revenue	12,354	11,180
Profit before tax	7,035	4,615
Profit after tax	4,115	2,761
Net assets	3,359	2,676
Interim dividends	3,035	2,351
Proposed final dividends (to be approved at the Annual General Meeting)	1,068	399
Total value added	54,899	49,617
Investments	313	136
Market capitalisation	34,655	12,363
Value added per employee	184	161
Group employment (nos)	298	308
Per share	**Rs.**	**Rs.**
Market value	185.00	66.00
Net assets	17.93	14.29
Earnings	21.97	14.74
Dividends (interim and proposed final dividend)	21.90	14.68

Our Strategy

The strategy to deliver our vision is based on growth, productivity, responsibility and building a winning organisation.

CHAIRMAN'S STATEMENT

Chairman's Statement

... As your Chairman, I am proud to claim that CTC as a corporate has demonstrated excellence during the year under review ...

Jayampathi Bandaranayake
Chairman

It is with great pleasure that we present to you the Annual Report and audited financial statements of your company (CTC) for the year 2009. I am confident that our shareholders will be pleased with the performance of the Company this financial year despite the vagaries of the global and local economies on many commercial operations.

For corporations across the world, the year 2009 has been more than just challenging. As the world stood on the brink of a financial meltdown and the threatened cataclysmic consequences reminiscent of the Great Depression of the 1920s, commercial enterprises grappled to change and to survive. The year has been witness to many corporate demises overseas and restructuring and adjustments of companies locally.

Yet in the face of such adversity, accomplishment too thrives, thanks to the foresight, disciplined and anticipatory actions of your Company over the past several years. As your Chairman, I am proud to claim that CTC as a corporate has demonstrated excellence during the year under review, both from an operational and financial viewpoint. Hopefully society at large sees us as a responsible company in the conduct of all organs including the manner in which we market tobacco products.

In specific terms your Company's proactive approach to productivity enhancements with sensitivity has been its 'winning formula' over the years and the same approach can benefit most establishments of this country. In 2009, a doubling up of efforts in this sphere has enabled the achievement of results that place CTCs' accomplishments along with the top performers.

A Definitive Year

For our nation, 2009 was a definitive year. In May 2009 the nation united as one not only to celebrate the defeat of terrorism but also to dream of the limitless opportunities for the country that the eradication of terrorism portends. With the end of the conflict, the nation confronted an immediate and mounting challenge to accommodate, facilitate and care for over 300,000 Internally Displaced People (IDPs) in the Northern and Eastern provinces. The country has also delivered on the resettlement of the displaced with the timescales publicly announced. All these will help the nation to realise the dreams and vision of greater trade and investments and economic advancement.

With the ending of the conflict, the concern of the general public for the affected fellow citizens was visible across the length and breadth of the country. In much the same manner, as it did with spontaneity at the time of the Tsunami, it kindled popular interest in helping in the welfare of the IDPs and island wide activity was witnessed. As a concerned corporate citizen, your Company too acted to support the national efforts initially in providing humanitarian assistance and thereafter in helping reestablish

For corporations across the world, the year 2009 has been more than just challenging.

livelihoods of the affected people of the North and East, in much the same way it did following the Tsunami devastation in 2004.

This national response of a display of feelings of brotherhood will do wonders for national integration, peace and prosperity so vital for the country's next challenge of accelerated economic growth.

Economic outlook

Despite the upheaval in global markets, and the fallout of the financial crisis on economies across the world, Sri Lanka remained relatively unscathed with minimal impact of global recessionary pressures.

However, going forward, Sri Lanka will continue to face shortfalls in Government revenue. This is especially true in the light of the burgeoning Government expenditure forecasts for the medium term, predominantly comprising capital expenditure for infrastructure development of the Northern and Eastern provinces. This scenario will pose great challenges for the Sri Lankan economy in the year ahead. Our shareholders should be aware that the revenue expectations of the Government in this context needs to be met particularly as the emphasis will now be on development with a clear vision for the future as opposed to mere maintenance for survival.

Revenue to the state

In the year 2009, CTC continued to pursue a host of strategies from systems and efficiency reviews to proactive productivity enhancements aimed at curtailing costs. Operating in a stagnant market with contracting demand, CTC achieved financial performance excellence despite the challenging market situation due singularly to its effectiveness and efficiency across each of the Company's strategic pillars as explained in the Chief Executive Officer's statement.

In the light of these achievements, CTC's commitment to the National Economy has become progressively more prominent in terms of contributions. In 2009, CTC continued to be a key source of revenue to the Government of Sri Lanka contributing to the national exchequer a total of Rs. 52.4 billion which represents 7.6 per cent of the country's total tax revenue, approximately 2.2 per cent of the GDP.

Consultative approach to policy determination

Your Company remains committed to deliver growing demands for revenue given the particular accent on national development. However, we wish to remind the policy framers that restrictions on the way a tobacco company must be allowed to operate as spelled out in the National Authority on Tobacco and Alcohol Act (NATA) and any proposed amendments thereto must be in line with practices of the nations with whom we compete and it should not take a trajectory of its own, oblivious to other national and practical considerations. For instance with the initial introduction of NATA, it is reported that 10,000 arrests resulted in the year 2008. In instances where the arrests were contested and challenged in courts, over 98% of cases were dismissed on the basis of wrongful arrests. Clearly there are constructive, more prudent and enlightened approaches to ensure compliance rather than through the wasteful use of state machinery which could otherwise be more productively engaged.

It is regrettable that despite several offers to the relevant authorities that a more participatory approach to policy implementation be adopted through dialogue, awareness building etc the offer for consultation remains ignored.

Sustainable agriculture development

In consonance with the stated goal of being a responsible corporate citizen, CTC has consistently and substantially invested in social and economic advancement of the rural poor through sustainable agriculture. In 2009, the Company took a further step towards intensifying its efforts through working with Outreach Projects (Guarantee) Limited to manage and operate its various responsibility initiatives. With a Board of Directors of its own, a staff of 42 and established offices in Colombo, Kandy and Trincomalee, the entity will be a catalytic force in propelling the speed and intensity of sustainable agriculture efforts in the years ahead.

A century of history

In the year under review, CTC launched a celebratory book titled "The History of the Tobacco Company" compiled to

CTC continued to be a lead company in the Colombo Stock Exchange in terms of yield on share price.

honour a centenary of operations in Sri Lanka. The book brings to life the trials and tribulations of a fledgling trading business of an imported product established in 1906 and its progressive growth into an integrated national manufacturing business that infused vivacity to rural agriculture, honing local knowledge and transferring global know-how to the Ceylonese talent pool as it was then known. It also traces how in the latter years the Company adjusted to societal expectations in the manner in which tobacco products were handled and marketed, given the increasing awareness of the health risks associated with tobacco products much before regulatory interventions.

Dividends and share value

Commendable financial performance during the year rewarded shareholders with above average returns, in keeping with the expectations of a top tier company in Sri Lanka.

Four interim dividends totaling Rs. 16.20 per share were paid to shareholders for the year 2009. CTC continued to be a lead company in the Colombo Stock Exchange in terms of yield on share price. During the year the Company's share price moved upwards to reach an all time high of Rs.193, a result of commendable returns and general market buoyancy.

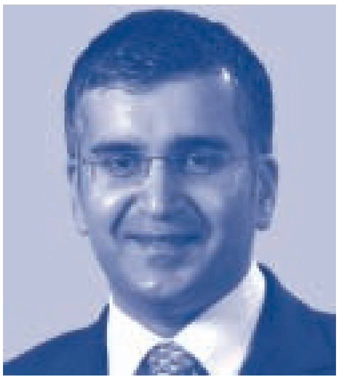
In conclusion

I would like to thank my enlightened colleagues on the Board of Directors for their support, guidance and valuable contribution in all board deliberations. I wish to thank the CTC Team for their passion and fortitude and near flawless execution of strategy. In the year 2010 and years ahead we will be blessed with economic growth and progress but will also face growing challenges to demonstrate our stated desire to act and gain acceptance as a responsible company. As a Board of Directors we remain confident of the ability of our business partners namely leaf growers, company employees at all levels, suppliers of services and importantly our trade partners of the distributors and retail chains to collectively work in achieving the corporate vision of being an inspiration for Corporate Excellence in Sri Lanka.

My sincere appreciation to all our stakeholders for believing in our strength and capability. We remain committed to the delivery of value, consistently and at every opportunity to you our shareholders and of course, our customers within the overall national priorities which we are committed to support.

Jayampathi Bandaranayake
Chairman

28th January 2010



CHIEF EXECUTIVE OFFICER'S STATEMENT

Chief Executive Officer's Statement

... The year under review has undoubtedly been one of the most testing for CTC ...

Mustanser Ali Khan
Chief Executive Officer

As you read this review, Ceylon Tobacco Company (CTC) stands poised for consistent, strong and stable business performance in the backdrop of the constricting challenges posed by economic turbulence we all experienced locally as well as in the global economies.

The year under review has undoubtedly been one of the most testing for CTC, as it has been for most FMCG businesses locally and worldwide. More than 100 years of operational excellence in Sri Lanka has stood us in good stead. Our extensive local know how blended appropriately with BAT's global best practices and has been the key enabler for our steady yet significant business performance in 2009.

We accrued business success through diligent and responsible execution of far-sighted consistent strategies to enrich our portfolio, enhance our people capital and to achieve excellence in productivity.

Strategic drivers for the year

Our successes in 2009, despite the debilitating effects of the global economic downturn and its cascading impacts to the Sri Lankan consumer, are attributable to CTC's consumer centricity and its concentration on enriching the portfolio through infusion of innovation and creativity to the business ethic. During the year, CTC demonstrated consistent excellence in productivity and garnered robust financial growth by greatly shaving off costs to record a profit after tax of Rs. 4,115 million. The Company's gross revenue grew by 6% over that of 2008 to Rs. 58.1 billion. This growth momentum is reflective in CTC's contribution to the national exchequer an increase of 8 per cent year on year from 2008 to a total of Rs. 52.4 billion, equivalent to 90% of the gross revenue and is commendable in the light of a continued contraction in the sales volumes, as has been the trend over the past few years.

Agile execution of far-sighted and responsible strategies helped accelerate our momentum towards achieving our vision to be the Inspiration for Corporate Excellence in Sri Lanka.

During the year, the Company's strategic focus lay on huge yet humane productivity initiatives aimed at capacity building and greater delivery of value across the supply chain as well as to its people, the greater community and the nation. Direct accrued benefits from optimisation of the distribution network, reduction of overheads and enhancements to the manufacturing, logistics and leaf growing components of the business have been the predominant contributors to CTC's performance during the year.

The Government of Sri Lanka persisted its drive against illicit cigarettes in 2009 with approximately 1,890 raids carried out by law enforcement authorities. Sri Lanka continued to be one of the

During the year, CTC demonstrated consistent excellence in productivity and garnered robust financial growth.

few countries in the Region to continuously sustain efforts against illicit cigarettes, and was thus an exception, as like markets in the Region witnessed a growth in the informal sector. These actions proved to be of fundamental importance to ensure continued growth in Government as well as CTC revenue.

Portfolio enrichment
With a value increase of approximately 11 per cent in net revenue, CTC reaped the benefits of numerous portfolio actions initiated during the year under review. We focused towards infusing greater consumer relevance to the brand portfolio especially in a scenario of decreasing disposable income and an acceleration in down trading towards the second half of the year. CTC revisited and revitalized its brand strategy to meet the expectations of consumers whilst continuing to strengthen the Global Drive Brands.

CTC's premium offer Dunhill performed exceptionally to meet pre-set targets and strategic objectives for the brand. John Player Gold Leaf (JPGL) remained the mainstay brand in the portfolio. Going forward, we are confident that planned investments into JPGL and greater value addition to the brand will yield renewed returns in the medium term.

We are appreciative of the Government's efforts to embed the Tobacco Registration Process, thus differentiating the informal and formal tobacco sectors. This initiative will no doubt complement the drive towards formalizing the entire tobacco sector, whilst also greatly sustaining the flow of Government revenue.

Productivity propelled
As in the past, productivity remained a critical pillar and is largely attributed to CTC's robust performance in 2009. Productivity led initiatives carried out throughout the year allowed CTC to achieve an impressive cost containment target of beyond Rs. 1 billion.

The Company's Valued Business Partners demonstrated the strength of their century old relationship by extending their cooperation and support at the marketplace, acting in good faith in the mutual interest of both parties to achieve the highest levels of business benefit during the distribution optimisation process undertaken during the year.

CTC has, consistently, over the years been at the forefront of productivity optimisation irrespective of the external environmental outlook. This "operational attitude" across the value chain has garnered excellence for the organisation through optimised costs and operational structures. The year 2009 was no exception, despite the challenges, a productivity led approach enabled CTC to achieve sustained growth and we are confident that it is this very same approach that will allow CTC to continue to be a sustainable business in the long term.

Our people define our success
The CTC family has undoubtedly been the core of its success for the past 100 years. The sheer passion, commitment, and drive for excellence have been the cornerstone of our performance this year. Our culture of winning has truly been demonstrated in 2009 where the CTC family despite the odds, has collectively strived towards achieving even higher levels of corporate excellence.

CTC has and continues to be a hotbed for talent and is a key talent exporter to the global BAT network. In the recent past including 2009, numerous CTC team members were seconded to the BAT operations around the world to positions of seniority such as Asia Pacific Regional Operations Manager, Supply Chain Director – BAT Bangladesh, General Manager – BAT Singapore, General Manager – BAT Thailand and Philippines, Head of Finance - BAT GSD Malaysia and Business Change Manager - BAT EAS to name a few.

The ability to listen to each other and to communicate effectively has been another key enabler to our success. In 2009, we intensified our efforts to come together as one force with common understanding, by listening to each other more often and by creating more opportunities for a two way open and honest dialogue.

During the year, CTC compiled and launched a book to recognise and celebrate the journey paved by the pioneers of the Tobacco Company a century ago. The book titled, "The History of the Tobacco Company" celebrates the foresight and the spirit of the people who one hundred years ago envisioned an enterprise which today is an inspiration for Corporate Excellence in Sri Lanka.

Chief Executive Officer's Statement

We are confident that our team will continue to deliver far greater value through cross functional interaction.

Just as we celebrate the fortitude of our pioneers, we also celebrate the milestones that CTC's family today has achieved and will continue to achieve in the years to come.

Responsible corporate stewardship

Responsibility is in the genetic composition of our business. Our responsibility initiatives evoke national priorities. Through our flagship responsibility project Sustainable Agriculture Development Programme (SADP) we have reached out to 7,045 families across Sri Lanka, assisting them to overcome poverty through the attainment of self sufficiency. SADP is an agro based programme that utilises inputs such as seeds, animals and cultivation know-how to enable participants achieve a positive change in their mindsets, giving them the opportunity to take their livelihoods to their own hands. In the year 2009, CTC cascaded this programme to the Eastern province of Sri Lanka, engaging with 2,000 families who for decades had no reliable means of livelihood.

The SADP project remains one of the largest corporate social responsibility initiatives in Sri Lanka. Aligned with the Government's national priority to alleviate poverty in keeping with the United Nations Millennium Development Goals, CTC is resolved to extend the project to benefit a total of 14,000 families by the year 2011.

Further to the liberation of the Northern province and the unification of the nation as one country in May 2009, CTC has pledged its support to the Government of Sri Lanka to actively participate in the reconstruction of the infrastructure in the Northern and Eastern provinces.

Responsibility is an approach that is inherent to how we do business. Our CTC family is inextricably involved in the entirety of the Company's responsibility initiatives. In total over 42 team members are directly engaged in the SADP project. Strategically led, CTC's responsibility initiatives are directed by the CSR Committee and the Board of Directors. A dedicated guaranteed company Outreach Projects (Guarantee) Limited is overlooking the CSR initiatives and now it operates with offices in Colombo, Kandy and Trincomalee and is governed by a separate Board of Directors to that of CTC.

Appreciation

Let me take this opportunity to extend my warm appreciation to the Chairman and the Board of Directors for their guidance and foresight, steering CTC to consistently transform the way it does business, evolving ahead of externalities.

Thanks are also due to the diligent fellow EXCO members, who ably led to achieve all of CTC's strategic objectives during the year. Our entire CTC family that has proven that challenging times are a precursor for an even better business performance, thank you for your dedication and passion. I also welcome Mr. Aynul Kabir who joins us from British American Tobacco Bangladesh to head CTC's newly established, fully fledged Legal function.

Looking to the future

Going forward, we foresee that CTC will not only face challenges but also myriad opportunities. In that light, our intention is to significantly accelerate performance whilst being agile and adaptive to environmental changes. We are confident that our team will continue to deliver far greater value through cross functional interaction and by collectively harnessing the specialist capabilities that define CTC. Our people power, experience and expertise place us as a formidable force in corporate Sri Lanka and we will continue to aspire towards achieving higher levels of Corporate Excellence. We are confident that we will adapt, engage and perform at an even higher plane in the years ahead through proactive enhancement of our business functions. We remain committed to our vision to be the inspiration for Corporate Excellence in Sri Lanka.

Mustanser Ali Khan
Chief Executive Officer

28th January 2010

BOARD OF DIRECTORS

Board of Directors

Jayampathi Bandaranayake
LLB, FCIS, FIPM
Chairman

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 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 the Ceylon Chamber of Commerce.

Mustanser Ali Khan
Chief Executive Officer

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 (Australia)
Finance Director

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 and Chevron Lubricants Lanka PLC. He has held many public appointments including those as a member of the Telecommunications Regulatory Commission, Presidential Commission on Trade and Tariff and the Monetary Board of the Central Bank. He is a Fellow of the Institute of Chartered Accountants of Sri Lanka. Mr. Rodrigo serves as the Chairman of the Audit Committee of Ceylon Tobacco Company PLC.

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, Vice Chairman of Ceylon Chamber of Commerce and serves as a member of several clusters of the National Council of Economic Development (NCED).

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 30 years. He joined the Company as a 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.

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. He was awarded Hubert Humphery Fellowship by the US Govt. to pursue higher studies.

The Executive Committee

From left to right

Rajiv Meewakkala
Marketing Director

Aynul Kabir
Legal Director

Samitha Perera
Human Resources Director

Bruce Jalleh
Finance Director

Mustanser Ali Khan
Chief Executive Officer

Gerson Pessoa
Supply Chain Director

Dinesh Dharmadasa
Corporate & Regulatory Affairs Director

MANAGEMENT DISCUSSION & ANALYSIS

GROWTH

Management Discussion & Analysis

Value Creation

Whilst the year 2009 has characteristically been a year of challenges due to the complexity of the economic scenario - both from a global and local perspective, CTC encountered numerous impediments as a result of market place complexity.

Pro-productivity propels growth

Whilst the year 2009 has characteristically been a year of challenges due to the complexity of the economic scenario, both from a global and local perspective, CTC encountered numerous impediments as a result of market place complexity.

Recessionary pressures on consumer spending shaved off disposal incomes, thus compelling consumers to consider economical alternatives. Price increases above inflation further compounded the affordability issue. Clear opportunity for growth of the illicit sector was witnessed by the confiscations recorded by the customs authority. The total confiscated number of cigarettes in 2009 were 79 million sticks in comparison with 34 million sticks in 2008.

Within these adverse market conditions CTC was able to protect the legal share of the market due to the strong enforcement initiatives of the custom authorities. However, a volume decline of 5% persisted as against that of 2008.

Premium portfolio performance

Dunhill has traditionally constituted of only a limited contribution to CTC's portfolio. Its role in CTC's product portfolio has been to deliver on creating and growing the premium segment of the market. As an infuser of choice and innovation to the marketplace, Dunhill has garnered a niche base. In an effort to build this base, CTC during the year undertook brand initiatives with the objective of introducing Dunhill to the current smoker base. This strategy targets in particular the upper end of the John Player Gold Leaf (JPGL) user base and focuses on an upward shift in brand usage from JPGL to Dunhill.

In 2009, CTC launched a new look for Dunhill and was the second market in the global BAT network to do so. The packaging change, an aspirational positioning and an enhanced distribution will collectively establish Dunhill as a premium offer in the marketplace. This pro-productivity initiative is expected to allow for a greater value return from the brand.

Mid range portfolio performance

JPGL during the year continued to act as a key value driver. In 2009 CTC embarked on revitalising the brand through more brand development, as consumers demonstrated an increasing sensitivity to price. In line with this, the new communication platform "Know What Matters" was launched in Sri Lanka.

As market dynamics changed and buyer behaviour modified, CTC recognised the need to realign its value proposition to consumers. As a consequence, the Company reassessed its portfolio strategy during the year. In line with CTC's focus on pro-productivity during the year, Viceroy was migrated to Pall Mall and price-positioned below JPGL. Numerous brand initiatives infused vitality to the brand in an attempt to strengthen consumer relevance.

Low/ very low segments

The brands Four Aces, Three Roses and Capstan at the lowest end of the continuum played a critical role in containing the growth of illicit volume in the marketplace through their key proposition of value for money.

Distribution

CTC recognises the criticality of a dynamic and productive trade marketing and distribution strategy. During the year under review, steps were undertaken to further enhance the efficacy and effectiveness of CTC's distribution channels.

CTC increased its direct canvassing of retail outlets by more than 10,000 retailers during the year. This was driven by the need to provide a better service to retailers and also ensure the availability of our brands in deep rural areas.

In the second half of the year, CTC renewed and strengthened its distributor partnerships in the Northern and Eastern provinces and undertook initiatives to expeditiously expand distribution in both regions. Outlet development and retailer meetings were carried out to build the infrastructure in view of future growth opportunities.

In addition, the Retail Excellence Series was conducted during the year and benefited over 7,000 retailers. The exercise aimed to enhance the skill levels of retailers on retail marketing and comprised of sessions on retail methods, merchandising, and communications amongst others. The series intends to uplift the practices of retailers by creating awareness and knowledge sharing. The initiative fits within CTC's pro-productivity stance and is expected to propagate a culture of productivity consciousness amongst the Company's retailer base, thus directly benefiting both the retailer as well as CTC.

Marketing resources management

Marketing resources management remained a critical component of CTC's growth strategy especially from a human resource perspective. Going forward, CTC recognises the importance of excellence in marketing resources for the future success of CTC. To this end, the Company leveraged on the expertise and know-how available to it from the British American Tobacco (BAT) South Asian Region by placing selected individuals within the marketing functions of hyper competitive markets such as Pakistan and Bangladesh. CTC expects this form of resource enhancement initiatives will aid in the development of skill-sets and enable CTC to meet future market challenges with confidence.

Similarly, CTC also adopted the global initiative termed Marketing Excellence Series and employed job rotation as a viable means to achieve a sound balance of marketing commercial skills.

During the year, a number of trade marketing members was selected based on performance and future potential for secondments within the BAT network. As such two members are undergoing skills exchange in Malaysia and Taiwan.

Valued Business Partners

Distributor Association of Ceylon Tobacco Company

Distributors

Name	Length of Relationship
Colombo	
Arunadisi Ltd	81
W.D. Paulis Appuhamy & Co.	77
Samaranayake & Co. (Pvt) Ltd.	58
Jaywardene & Sons	25
Excel Distributors (Pvt) Ltd	5
South	
S.U. Mohamed Hadjiar (Pvt) Ltd	78
K.M. Siyaneris (Pvt) Ltd	78
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	78
Moratuwa Stores	63
Wickramaratne Distributors (Pvt) Ltd,	23
Central	
Bibile Trading & Forwarding Agency	65
Gamani Bros Ltd	53
Kalmunai Distributors	53
Ampara MPCS Ltd	45
Amirthans Distributors (Pvt) Ltd	23
North	
L.H.L. Noris de Silva & Son (Pvt) Ltd,	66
K.D.H. David & Co.	58
D.S. Gunasekera Ltd	53
G.H.A. De Silva & Co.	53
Nimali & Bros. Ltd (Matale)	51
Kurunegala Merchants Ltd	43
S. Thirunavukkarasu & Sons	23
Kugan Stores	9

Suppliers

Supplier	Country	Length of Relationship
Foreign Suppliers		
Tann Papier G.M.B.H	Austria	26
Daicel Chemical (Asia) Pte Ltd	Japan	21
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	21
Henkel Adhesive Technologies SDN BHD	Malaysia	15
Chancery Manufacturing Limited	UK	14
Indian Tobacco Company Limited	India	10
General Metallisers Limited	India	10
Anzpac Services (Australia) Pvt Ltd	Australia	9
Tann Philippines Inc.	Philippines	5
PT Argha Karya Prima Industry,TBK	Indonesia	4
Siegwerk Switzerland AG	Switzerland	4
P T Bukit Muriya Jaya	Indonesia	1
P T Filtrona	Indonesia	1
Tien Wah Press	Malaysia	1
Mitsubishi Corporation	Japan	1
Benkert Malaysia SDN BHD	Malaysia	1
Local Suppliers		
ACE Printing & Packaging (Pvt) Ltd		17
Ceylon Tapes (Pvt) Ltd		11
Packwell Lanka Limited		10
PrintCare Packaging (Pvt) Ltd		3

PRODUCTIVITY

Management Discussion & Analysis

Productivity

In addition to the implementation of strategies to address the key cost drivers, the year 2009 was inherently a year of consolidation with strategies put in place to ensure the sustainability of these results for the coming years.

Gearing for productivity enhancements in a very challenging year

The year 2009 posed a tremendous challenge to our cost base. On the front side of the Supply Chain, as the global economic crisis placed pressure on consumer affordability, CTC acted with speed and precision to control the escalation of costs in a concerted attempt to decelerate down trading, thus ensuring a minimal impact to the Company's profitability. On the back end CTC had to externally source part of its tobacco leaf requirements, putting additional pressure on our variable costs.

Despite these challenges, CTC once again demonstrated its ability to redefine Smart Cost Management. In addition to the implementation of strategies to address the key cost drivers, the year 2009 was inherently a year of consolidation with strategies put in place to ensure the sustainability of these results for the coming years.

Distribution network optimisation

In parallel with a drive to improve our route to markets efficiency, CTC re-evaluated the efficiency of the distribution channels through a rigorous assessment of distributor's performance as a pro-active means to intensify productivity of CTC's exclusive distributors.

With the initial screening stage completed, CTC embarked on the roll out of DX (Distribution eXcellence), one of BAT's flagship best practices, to our exclusive distributors. DX has been implemented in various countries across the region and in essence provides a collation of benchmarks and execution methodologies for the distribution activity. It seeks to enhance the distribution function in the most efficient manner, delivering not only a much better customer service for the retail universe being serviced by a particular distributor, but also substantial cost savings in this activity.

As a result, the entire process allowed CTC to reconfigure the distribution network through consolidation whilst the distributors themselves were able to achieve economies of scale.

Leaf sustainability

During the year an intensive crop acceleration project was undertaken with the objective of expediting the recovery of leaf crop and the farmer base. Leaf sustainability has been a key concern for CTC consequent to a decline in the crop in 2008 Yala season. In light of the escalating food prices, the attraction of alternative crops further eroded the farmer base and the sustainability of leaf. Additionally, in the first quarter of 2009 the

viability of the Maha season crop was jeopardised due to a protracted drought, however, through the maintenance of agro best practices, the crop was successfully harvested with a satisfactory yield.

Given the sensitivity of tobacco crop, CTC recognised the need for a concerted drive to revive and consolidate the farmer base as well as to ensure the long-term sustainability of leaf in terms of cost and productivity. With an infusion of know-how from BAT 's regional agro-experts, CTC executed a three pronged strategy; firstly to rationalise leaf growing areas, secondly to expand leaf growing in high productive new areas and thirdly to rebuild the farmer base in the Yala areas.

The early outcomes of the leaf sustainability project indicate firm future commitment from farmers. The expansion of leaf growing areas to non-traditional productive areas also heralds a progressive expansion and maintenance of crop yields that are disparate to the customary crop seasons.

Supply chain optimisation

A great proportion of cost is allocated to our Supply Chain, including Leaf Sourcing, Leaf Processing, Manufacturing, Logistic and Distribution. In this regard, 2009 witnessed a major drive to optimise and reduce operating costs, particularly in the following areas:

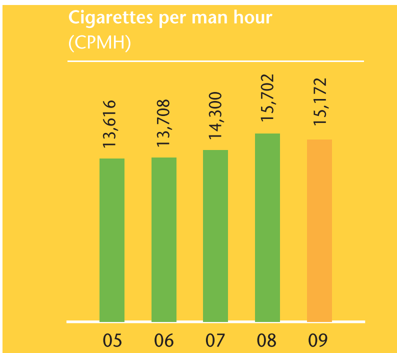
Sourcing strategy optimisation

Indirect sourced items represent a large part of overhead costs. During 2009, CTC consolidated its strategy towards indirect procurement in order to ensure the best value to the business in a sustainable manner.

To this end, CTC has reviewed and re-negotiated contracts with all possible service providers, benefited of in-market and above-market aggregation with business partners, peer companies in Sri Lanka and sister companies abroad and managed to achieve substantial economies of scale and better efficiencies.

A sound example to this end was the sourcing of fertilizer, one of the main cost drivers for tobacco leaf production. The price of fertilizer in the global marketplace increased at an above average rate over the last few years. This incremental cost has in turn continuously escalated the cost of leaf production for CTC. With the objective of securing better prices for fertilizer, an extensive external market analysis to identify potential new suppliers was conducted during the year. The aggregation of regional requirements enabled CTC to secure a new supplier with an assured 15 per cent reduction in fertilizer cost for the year under review.

Another successful sourcing strategy used during the year was the standardisation and aggregation in the procurement of trade marketing outlet items to reduce cost and complexity in the trade and distribution activities. The standardisation to avoid complexity of the unit development as well as the aggregation of units allowed for significant cost savings.



Logistics and warehousing operations optimisation

During the year, CTC embarked on a drive to review all its logistics and warehousing operations across the primary supply chain. The first milestone achieved was in leaf logistics. By

Maha - Barnowners Association

Yala - Barnowners Association

effectively changing the leaf logistics arrangement during the year with the implementation of a "Just in Time" inventory system, processed leaf stocks were transferred directly from Kandy to Colombo eliminating the previous need for intermediary warehousing.

This first step has been indicative of a significant cost minimisation and productivity enhancement. Consequent to restructuring of the warehousing operation during the year, approximately 20 per cent productivity enhancement was evident. The new organisational structure has demonstrated improved efficiencies across the material warehousing process.

In addition, CTC actively sought the services of a third party logistics provider having expertise in logistics and warehousing in a bid to garner synergies through strategic warehousing and logistics planning. CTC aims to fully complete the outsourcing of its primary logistics operation in 2010.

Manufacturing operations optimisation

In 2009, our manufacturing operations have seen a multitude of challenges to sustain its cost base under control, particularly with the reduction of overall production volume, increase of volumes in the low-end segment and a need for increasing complexity in terms of innovation. Stability in the costs of utilities such as furnace oil and electricity contributed towards the maintenance of product costs at budgeted levels. In addition, projects in the areas of energy saving, waste reduction, maintenance optimisation and spare parts sourcing have contributed towards the delivery of manufacturing cost savings during the year.

Similarly, the efficiency optimisation experienced at the factory, coupled with new machine installation and investments in industrial automation during the year under review have made it possible to implement a new working arrangement for the factory, with significant reduction in costs and increase in productivity levels. As a result, a reduced number of production shifts will be required going forward. Discussions are currently underway with our trade unions towards the implementation of this new working arrangement. Full implementation of the new work arrangement is expected to commence by the first quarter of 2010.

Smart cost and inventory management

Complementing the overall cost optimisation drive during 2009, a series of cost management projects and cost containment initiatives allowed CTC to achieve beyond the targeted Rs. 1 billion cost savings for the year.

In addition, recognising a reduced risk related to security in post-war Sri Lanka, CTC embarked on an extensive study with cross functional teams to review its inventory policies with the objective of adjusting stock holding durations and contingencies to this new scenario. As a result, tobacco leaf, wrapping materials and finished goods inventory have been reduced, releasing stock trapped cash back into the business.

Looking to the future

CTC's productivity in the coming years will continue to focus on the achievement of a streamlined and cost effective value chain, with special emphasis on the achievement of sustainability for the domestic leaf business and efficiency of the manufacturing operation.

As part of a multinational group, we will also continue to drive synergies from our sister companies in South Asia Area and Asia Pacific Region in order to improve productivity, reduce costs and optimise the overall value chain.

RESPONSIBILITY

Management Discussion & Analysis

Responsibility


SADP Plus in the Trincomalee District


SADP project

CTC recognises its obligation to conduct business fairly and responsibly, meeting the interests of its stakeholders and through the conservation of the environment.

Sustainability as a strategic business proposition
At CTC, responsibility works in tandem with the organisation's core business strategy. CTC's business principles; mutual benefit, responsible product stewardship and good corporate conduct cover the key issues that underpin the Company's Corporate Social Responsibility. In essence, responsibility is viewed as a strategic component to the future well-being of the organisation and its operating environment. CTC recognises its obligation to conduct business fairly and responsibly, meeting the interests of its stakeholders and through the conservation of the environment. Through the adoption of a strategic responsibility ethic CTC has over the years continued to address and exceed public expectations of the society in many spheres. As a corporate leader in the Sri Lankan industry, CTC has consistently demonstrated the strategic nature of its responsibility initiatives. CTC therefore has proactively engaged in strategic CSR in recognition of its inherent and uncompromising role towards ensuring sustainability of livelihoods, environment and the economy.

As a leader in strategic CSR, CTC was a pioneer in Sri Lanka to establish a CSR Steering Committee. With a top-down approach to Corporate Social Initiatives, CTC's CSR Steering Committee is chaired by the Chairman and is composed of Board members. By evaluating Corporate Social Responsibility initiatives and an array of environmental and community issues, the committee determines the most appropriate areas of investment for CSR purposes based on stakeholder dialogues that best fit the company's philosophy of adding value to the community and environment. In 2007 however, CTC took a further proactive step towards elevating the role and importance of strategic CSR through the establishment of a guaranteed company - Outreach Projects (Guarantee) Ltd with the sole responsibility of managing the Company's CSR activities. This initiative places CTC in a unique position to further accelerate its responsibility initiatives through the infusion of greater and dedicated resources, concentrated efforts and strategic investment.

Outreach Projects (Guarantee) Ltd
Since December 2007 this Company conducts CTC's CSR projects throughout the island. The Company's prime objective is to ensure the smooth functioning of its two flagship projects, SADP and SADP Plus. The Company has its own Board of Directors and a work force of 42 employees with offices located in Trincomalee and Kandy.

SADP Plus

SADP

Sustainability - Sustainability means different things to different people.
The 1987 Brundtland Commission defined sustainable development as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs".

For others, it means commercial sustainability and the ability of the business to generate continued long-term profit growth.

For us, sustainability means addressing the key business-related social, environmental and economic impacts in a way that builds stakeholder and shareholder value, thereby improving commercial sustainability. Together with stakeholders in dialogue, we have identified our key sustainability issues. This involved balancing stakeholders' expectations with what we see as being important to business success, using a materiality test to evaluate all the key topics.

Like every other strategic pillar in the core business, sustainability is reviewed through a set of reliable measurement, verification, and reporting systems. CTC is committed to operating in an open and transparent way and "bringing the outside in" by listening and responding to its stakeholders on topics that matter to them, consistently.

Social sustenance through pro-productive actions – SADP
CTC's involvement with the rural community extends back in excess of fifty years. With the introduction of tobacco as a commercial crop in the early 1950s CTC has had a close link with the rural farming communities of Sri Lanka. Subsequent Corporate Social Investment (CSI) projects such as Sloping Agricultural Land Technology (SALT) project, irrigation tank restoration and sharing of agricultural best practices with non tobacco farmers have yielded CTC with insights to design, and develop an operational model for poverty alleviation.

In Sri Lanka over three million people live below the poverty line, amounting to 15% of the nation's total population. The official poverty line is defined as the per-capita expenditure for a person to be able to meet the nutritional anchor. Poverty alleviation has been a top priority in governmental and non governmental planning for the last three decades. A United Nations Millennium Development Goal, poverty alleviation efforts have principally been in the form of direct assistance to affected parties and rarely packaged in a sustainable livelihood development model.

Drawing from its close associations with the rural farming communities of Sri Lanka, CTC developed a unique concept for social and livelihood sustenance based on the philosophy "we help those who are willing to help themselves". The Sustainable Agricultural Development Project (SADP), is based on knowledge transfer, creating a paradigm shift in attitude amongst the rural community, a policy of no direct financial assistance but one of assistance through agricultural seeds, animal husbandry and skills. The focus lies in creating a long-term engagement between the farmer and his avenue for reaching self-sustenance. The total number of families recruited to date in the company's flagship Corporate Social Responsibility initiative is 7,045. Out of this, 1,475 families were from the Eastern province. 941 families have now graduated from the Programme after having achieved the objectives of the Project.

SADP is currently operational in 9 districts Badulla, Monaragala, Matale, Kandy, Nuwara Eliya, Polonnaruwa, Kegalle, Kurunegala and Galle.

SADP is a unique example of how a sequence of measures, all inter-linked, all contributing to raising income and the standard of living of farmers can be successfully implemented.

Rebuilding post conflict Sri Lanka – SADP Plus

2009 was a landmark year for Sri Lanka. As the conflict protracted for 3 decades drew to an end, the nation stood in the realisation of change. With the prospects of peace, Sri Lanka looks to rebuild the lives of the many thousands affected by the war. CTC as a responsible corporate, envisioned the need to assist in this reconstruction effort and accepted an invitation extended by the Government of Sri Lanka to the private sector to develop livelihoods in the eastern and northern provinces as a part of a national post-war rebuilding initiative. As such it initiated SADP Plus, an extension of its successful self-sustenance programme aimed at poverty alleviation. The project focuses on giving people a means for livelihood development in the post conflict Eastern province.

SADP Plus, like its sister project in other parts of the country SADP, is based on the theme of sustainable agriculture. There are two main work-streams under the project: developing self-sustenance through home gardening and developing livelihoods through cash crop cultivation. The selected families are provided with the education and inputs required for this purpose. The objective of the project is to ensure that the participating families are capable of sustaining their livelihood after the completion of the programme at the end of a period of two and a half years.
CTC looks to assist 4,000 families in the North and East under the aegis of the project by the year 2010. In 2009, 2,000 families were recruited for programme participation. With a commitment towards ensuring equitable ethnic diversity, the programme aims to achieve a clear balance amongst all communities.

SADP Plus currently operates in three villages across the Trincomalee District. Along with the North-East monsoon rains, 350 acres of maize have been planted on land owned by participating families. Further to this CTC also hopes to aid in marketing the produce by facilitating buyers for the farmers.

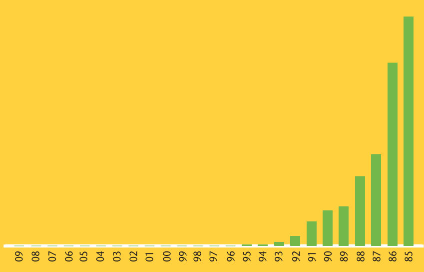
Environment, Health & Safety (EHS) and sharing best practices

CTC as an organisation has not only been looked upon by the industrial and corporate sectors of Sri Lanka as an inspiration for corporate excellence but also as a leader in social education for communities across Sri Lanka.

In 2009, CTC embarked on numerous initiatives to share best practices with other industries. CTC's manufacturing processes have been benchmarked by contemporaries in the industrial sector and as a leader, the Company has actively engaged with a view to share know-how. As such, during the year teams from external organisations such as the Ceylon Fishery Harbours Cooperation, Sri Lanka Electricity and Sri Lanka Air Force amongst others undertook study tours and training programmes at CTC's manufacturing facilities to gain knowledge in areas such as Operations, EHS as well as Change Management. In addition, CTC was selected as a benchmark Company by the Employers Federation of Ceylon with Nikkeiren International Corporation Centre Japan who were the organisers of an Occupational Safety and Health Training program which in part studied CTC's EH&S practices.

From a regional perspective, CTC has supported BAT Bangladesh's operation by sending a management and technical team from CTC's manufacturing to enhance machine performance. The team visited BAT Bangladesh for a period of six weeks to share their technical expertise with our sister company.

Lost workday case (no. of accidents)



Recognising and supporting the rural farmer

CTC continued to re-affirm its commitment to over 15,000 rural farmers engaged in leaf cultivation and curing through recognition programs, workshops, bonus schemes, and scholarship schemes for children of tobacco farmers. The forward contract systems that guarantee set prices for their produce despite market price variations, and CTC's best of class extension services and farmer support hot line further strengthen this relationship. During the year CTC continued to renew its role as facilitators in the lives of the farmer communities by assessing how best it can enhance their lives and livelihoods.

The "Farmer Appreciation Programme" in 2009 witnessed the recognition of commitment and excellence amongst the farmer base. A total of 75 farmers, who excelled in their chosen profession, were recognised for their contribution towards the success of CTC in the presence of the Minister of Agriculture and Chief Minister of the Central province.

Youth smoking prevention (YSP)

Exemplifying pro-productivity at work, CTC launched the YSP programme during the year. Aimed at the retailer, YSP is an educational programme that creates awareness on issues relating to youth smoking and the need for retailers to be aware to prevent sales to individuals under the age of 21. Sri Lanka is a pilot market for the YSP programme in the British American Tobacco Asia-Pacific region.

WINNING

Management Discussion & Analysis

Winning

A winning organisation is the fundamental base upon which CTC has consistently created a conducive culture for pro-productivity.

Pro-productivity through a winning organisation

At CTC people take centre stage. The right people and the right working environment set the stage to achieve CTC's vision to be the inspiration for corporate excellence in Sri Lanka. A winning organisation is the fundamental base upon which CTC has consistently created a conducive culture for pro-productivity.

Creating a culture of continuous enterprise-wide learning that encourages dialogue, sharing of knowledge and individual pursuit of innovation within the context of CTC's strategy and vision, has permitted the Company to create a scenario that enables every employee to work towards a common goal, across functions.

HR re-invented to drive business objectives

In 2009 CTC's initiatives towards a winning organisation focused primarily on delivering its Human Resource vision of building outstanding people in tandem with fostering an inspirational work place with the objective of delivering excellent business performance. With the new emphasis of Human Resources on the development of human capital and enhancing knowledge capital, CTC's Human Resources (HR) function too morphed during the year. Stepping up from the traditional "silo" oriented functioning where HR took on a more support role, in 2009, under aegis of the "big rock" project, CTC's HR management adopted a more involved approach to business. Re-invented as HR Business Partners (HRBP), the Company's HR function became an integral force in driving forward CTC's business objectives.

With the job profiles of HR management more focused towards achieving the Company's business goals, traditional HR functions such as talent and reward

Food Beverages and Tobacco Industries Employees Union (FBTIEU) - Ceylon Tobacco Colombo Branch

management as well as organisational development were centralised and managed by “centres of expertise” established in the BAT network. On the other hand, HRBP’s engaged in providing HR support to local line functions, implementing HR practices locally and managing unique local needs, thus creating a conducive environment that fosters organisational growth in tandem with the achievement of business objectives.

The implementation of the HRBP approach in 2009, has led to the creation of a lean and agile HR function which promotes fast decision-making and cultivates a sense of ownership for the role `and the business.

With the HR function re-invented in 2009, CTC expects it to play a critical role in the future growth of the business. Going forward, the role will shift to one wherein it envisions the future of the business, strategies in line and implements to achieve those strategies by driving the organisation to meet shared values and a shared vision.

Talent and leadership driven through internal development

Talent attraction and retention continues to be critical to the long-term success of CTC. In 2009, the focus of talent attraction lay in the development of employer brand efforts such as CTC’s internship programme, university partnerships and strategic recruitment of high potential Management Trainees. CTC’s structured Management Trainee Programme (MTP) was a key instrument in talent attraction during the year. A major recruitment drive was initiated infusing greater innovation and creativity to the process in an effort to enhance the employer brand. The recruitment process endeavoured to use the process as an opportunity to showcase the operations and culture of a World Class Company. The new recruitment process created a conducive platform to assess recruits beyond face value, seeking latent talents and leadership qualities that once nurtured will continue to give CTC the edge to lead in corporate excellence.

Talent Development initiatives in 2009 were specifically undertaken in response to identified talent development needs arising from an organisation-wide talent assessment conducted to unblock the talent pipeline. The talent assessment aimed at matching individual capabilities to expected business requirements and challenges in the long term. With limitations on the use of external resources for training and development in 2009, CTC took up the challenge to develop its people by utilising in-house resources innovatively thereby reinforcing its commitment to continuously develop and invest in its people.

CTC's labour unions continued to demonstrate their commitment to the organisation's well being throughout the year. By playing a leadership role in achieving the Company's business objectives for the year, the Unions further reinforced the achievement orientation of the Company.

FBTIEU - Kandy Branch

The two core initiatives undertaken were the Executive Development Course and the Team Leaders Development workshop with a total participation of 37 people across all functions.

The Executive Development Course integrates insightful functional presentations to provide the participants holistic business knowledge with a view to enhancing their knowledge beyond functional horizons. Stemming from the BAT philosophy of sharing business strategies with its people at all levels to not only receive feedback but also to afford them the opportunity to better understand the business strategies, and the tactical execution, the courses also serve as means to challenge and inspire participants to look beyond the conventional.

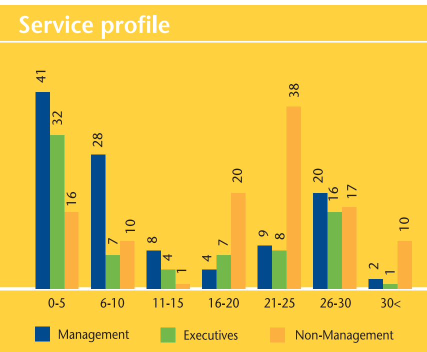
The Team Leaders Development Workshop (TLDW) has been specially designed for everyone in the "Manage others" leadership passage and covers the critical skills to be mastered by aspiring leaders. It equips line managers with the necessary tools to lead their teams in line with best practices. Specifically aimed at covering people leadership and coaching competencies, the programme has been designed to be facilitated by line managers themselves.

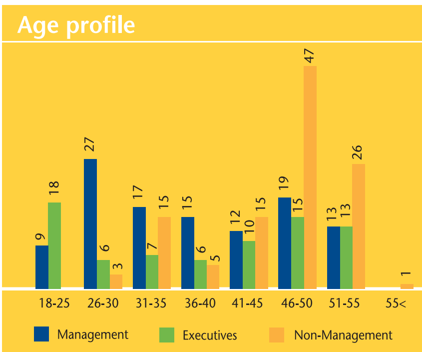
Through long and short-term international assignments as well as the South Asia Exchange Programme, CTC leveraged the opportunities of the global BAT network for critical talent development. Internal development roles were used to facilitate knowledge transfer especially across the strategic pillars of growth and productivity. Given the effectiveness of this initiative, internal development will continue to be an area of focus in the future.

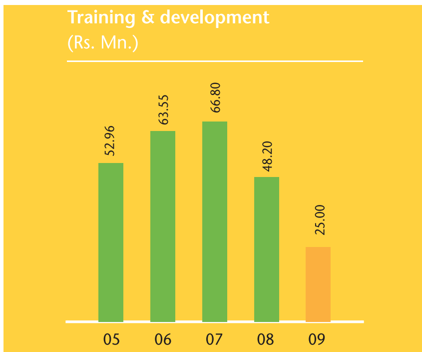
"Lead to Win" energises the CTC team

The year 2009 was charcaterised by the presence of a multitude of challenges both on the external and internal fronts. Thus, the necessity to create a cohesive CTC family was a key priority during the year. With this objective in mind, the "Lead to Win" project was initiated during the year with a view to motivate, engage, and energise the CTC team to work towards common goals. The project used the collaborative effects of involvement and engagement to achieve its objectives. With employees given the opportunity, through "Lead to Win" to understand, support and participate in key business initiatives they were "enabled" and emotionally empowered to take personal responsibility to support the overall big picture in terms business strategy, thus allowing them to look beyond the confines of their own functional areas.

The combination of involvement in key priority areas of the business with exposure to external stimulation were instrumental in re-invigorating the CTC team during the year. Motivation played a key role in energising the CTC team in 2009. Inspirational speeches by prominent personalities, learning and sharing of best practices via visits to benchmark factories, rewarding and celebrating "big rock" achievements as well as employee driven CSR projects laid the foundation for the creation of an inspired work community during the year.







Security Union

Ceylon Mercantile, Industrial and General Workers Union (CMU)

Employee relations reinforce CTC's family orientation

The culture at CTC can be defined from the perspective of a family orientation. With mutual respect for every member of the CTC family, the Company has long been one inspired entity that works collectively for the future benefit of both the organisation and its members. This "family" orientation cascades from the vision of the top management itself and is therefore pervasive across the organisation.

In 2009, to renew this sense of belonging, an employee pulse check was conducted in the form of an internal survey that sought to determine the changes expected by employees in terms of leadership and the management. With top management involvement in the analysis of each of the survey responses, appropriate plans were derived and set for implementation.

CTC's labour unions continued to demonstrate their commitment to the organisation's well being throughout the year. By playing a leadership role in achieving the Company's business objectives for the year, the unions further reinforced the achievement orientation of the Company.

As in previous years, the Company celebrated its milestones and achievements with the full participation of the CTC family. Thus during the year activities such as the CTC Night, Avurudhu celebrations and Award ceremonies were held to celebrate, reward and recognise the achievements of the CTC family.

Given the tough economic conditions prevalent during the year, CTC recognised the need to be supportive towards a seasonal pool of workers who have actively served the Company over many years in leaf production. As a seasonal pool, these contractual workers form a part of the extended family of CTC and contribute to the organisation's business goals only six months of every year. In 2009, the Company undertook a concerted step to assist them to sustain their livelihoods during the remainder of the year through knowledge and skill enhancement programmes. The initiative equipped the workers with new skills and a formal certificate to authenticate their training, such that they will be able to procure additional employment or undertake a trade through self-employment.

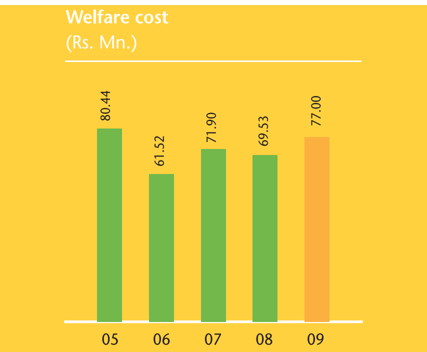
Open communication defines our winning organisation

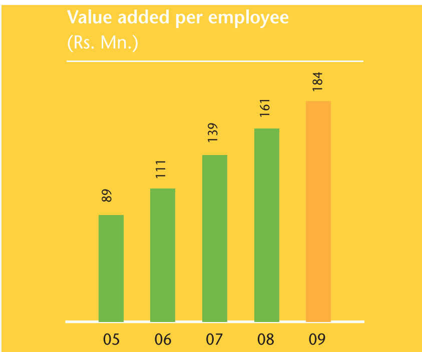
Open communication has always defined CTC's success. In 2009, this concept of open communication was taken a step forward towards knowledge sharing through a series of coffee morning sessions. The sessions comprised of presenters – selected by the top team – who were given the opportunity to share the progress of the Company towards the achievement of business objectives. These interactive sessions created a friendly, unhindered and neutral ground for effective communication.

During the year, the success of CTC as a winning organisation was borne from its ability to listen to each other and through communicating effectively.

Future outlook

With the evolution of the Company's HR function to one of business partnership, the future role of HR in shaping a winning organisation is far pronounced. Thus, in the immediate future, HR will greatly define not only the area of talent development but also the manner – both physical and emotional – in which CTC moves forward towards the achievement of key strategic objectives.





Global Reporting Initiative™

The GRI was convened in 1997 by the Coalition for Environmentally Responsible Economies (CERES), in partnership with the United Nations Environment Programme (UNEP), to produce globally applicable guidelines for voluntary use by organisations reporting on the economic, environmental and social dimensions of their activities.

CTC has been reporting on GRI's since 2001

either in our social report or in our annual report.

The third generation of the GRI's Sustainability Reporting Guidelines

(G3 Guidelines) was released internationally in October 2006.

The G3 guidelines provide new value and opportunities for reporting for the organisations and their stakeholders. And CTC will report on G3 for disclosing environmental social & economic performance in this Report with a comparison of three years. Details on the Global Reporting Initiative can be found at www.globalreporting.org.

G3 Environmental Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Materials					
EN1	Materials used by weight or volume	Total materials used tonnes	5,688	5,617	4,913
		Tonnes per million cigarettes equivalent produced	1.07	1.17	0.55
		Leaf tonnes	3,628	3,701	3,305
		Direct material tonnes	1,910	1,796	1,608
		Indirect material tonnes	150	120	120
EN2	Percentage of materials used that are recycled input materials		The Company uses tobacco from cigarettes damaged during production, which is less than 5% of the total tobacco usage.		
Energy					
EN3	Direct energy consumption by primary energy source	Total energy Giga Joules (Gj)	40,537	36,485	41,826
		Gj million cigarettes equivalent	7.64	7.59	4.66
		Total site and office direct energy Gj	38,166	32,955	33,174
		Other vehicles energy consumption Gj	585	1,063	5,074
		Trade marketing fleet energy Gj	1,786	2,466	3,579
		Trade marketing fleet energy per million cig sold Gj	0.38	0.56	0.85
EN4	Indirect energy consumption by primary source	Total energy Gj	39,350	42,285	37,953
		Gj million cigarettes equivalent	7.42	8.80	4.23
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	Actual (kWh)	5,918,665	5,964,105	5,924,142
		Savings (GJ)	14.46	(706)	(302)
			2007 Initiatives - Energy saving in air conditioning at NBA - Sun tube day lighting system (Engineering Dept.) - High Bay lamp installation at Secondary Manufacturing Department 2008 Initiatives - Optimised A/C loads by office refurbishment - Installed fan coil units in the new admin block - Company-wide energy awareness program was conducted 2009 Initiatives - Replaced SMD chiller tank ball valve - Replaced cooling condenser at cut tobacco store - GA160 complete overhaul on compressor at 40,000 hours		
Water					
EN8	Total water withdrawal by source	Total water withdrawal (m3)	50,392	45,802	49,610
EN9	Water sources significantly affected by withdrawal of water		The Company is using water from the municipal water delivery system. Therefore does not affect any water sources.		
EN10	Percentage and total volume of water recycled and reused	Percentage of water recycled	11.1	6.37	7.4
		Total volume of water recycled (m3)	1120	2,920	3,675
			Treated waste water is used for watering plants. Average usage of treated water for gardening and washing purposes per working day is 5 cubic metres.		

G3 Environmental Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Bio-Diversity					
EN11	Location and size of land owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas		CTC has leased 452 hectares of land in Matale, Badulla, Kandy and Nuwara-Eliya districts. This has been maintained as man made forests by CTC since the early 1980's. Breakdown of lands are as follows, Matale 320 hectares Kandy 108 hectares Nuwara Eliya 8 hectares Badulla 16 hectares		
EN12	Description of significant impact of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas		CTC was using fuel wood for curing of tobacco back in 1970's which was a concern and commenced growing their own fuel wood requirements in 1981. Government supported this project by leasing land for this project and the forest department recommended growing Eucalyptus. By 1990's Eucalyptus plantation extended to 500 hectares and was named by experts as one of the best man made forests in Sri Lanka. In 1997 CTC stopped using fuel wood for the curing of tobacco and converted all its barns to use paddy husk as the fuel source which was a waste material found in abundance.		
EN13	Habitats protected or restored		Though there was no requirement of fuel wood from 1997 CTC continued to look after their forests located in Matale, Badulla, Nuwara Eliya and Kandy districts (452 hectares). CTC, through their farmer network have grown over 6.1 million trees during the past 10 years.		
EN14	Strategies, current actions, and future plans for managing impact on biodiversity		In 2004 together with our parent company British American Tobacco plc (BAT) in UK, Flora & Fauna International, Earth Watch Institute (Europe) and Zoological Department of University of Peradeniya Sri Lanka, the Company embarked on a project to convert monoculture Eucalyptus plantations in to natural forests enriched with Biodiversity. The research site selected for this project is located in Maharagamuwa in the Matale District with an extent of 60 hectares. During the past four years CTC has collected important research data as to how a monoculture Eucalyptus plantations could be converted in to natural forests enriched with biodiversity. We hope to share this data with interested parties which would be of help to find solutions for the Eucalyptus issue in Sri Lanka.		
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operation, by level of extinction risk		There are 608 IUCN Red List species in Sri Lanka. The Company has not yet conducted any kind of research to identify the species that are affected by the Company's operations.		

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Emissions, Effluents and Waste					
EN16	Total direct and indirect greenhouse gas emissions by weight	CO_2 Emission tones	4,298	3,875	4,053
		CO_2 Emission tones per million cigarettes produced	0.81	0.81	0.46
EN17	Other relevant indirect greenhouse gas emissions by weight		Nil	Nil	Nil
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved		99% of the Company's solid waste is recycled or reused. The Company handed over 80% of the solid waste to a third party organisation to be used as an energy source. The Company has not quantified the reduction of green house gas emissions.		
EN19	Emissions of ozone-depleting substances by weight		All air-conditioning and refrigeration system have been converted to F134A. Therefore the Company does not emit significant amounts of ozone depleting substances in their operations.		
EN20	Significant air emissions by type and weight	It is measured annually and is within standards. L1 – open areas inside the factory premises; L2 – close to the main factory building; TA – Time Average (hours); Concentrations of air emissions (mg/m3); Air quality standards stipulated by the Central Environmental Authority			

EN20 – Air quality standards stipulated by the Central Environmental Authority

TA	SO2	NO2	CO	O3	Pb	SPM
24	0.08	0.10			0.002	0.30
8	0.12	0.15	10			0.35
1	0.20	0.25	30	0.20		0.50

For the year 2007

	TA	SO2	NO2	CO	O3	Pb	SPM
L1	24	0.036	0.032				0.068
	8	0.056	0.051	1.2			0.090
	1	0.117	0.098	3.6	0.005		0.192
L2	24	0.132	0.042				0.083
	8	0.051	0.056	2.4			0.123
	1	0.098	0.108	4.8	0.003		0.233

For the year 2008

	TA	SO2	NO2	CO	O3	Pb	SPM
L1	24	0.030	0.029	2.0		0.0001	0.078
	8	0.082	0.052	2.0			0.116
	1	0.132	0.094	5.0	0.005		0.200
L2	24	0.020	0.035	2.0		0.0001	0.107
	8	0.051	0.057	3.0			0.120
	1	0.088	0.070	5.0	0.008		0.163

For the year 2009

	TA	SO2	NO2	CO	O3	Pb	SPM
L1	24	0.029	0.033	2		<0.001	0.068
	8	0.043	0.046	4			0.098
	1	0.069	0.072	5	0.003		0.109
L2	24	0.021	0.029	3		<0.001	0.089
	8	0.033	0.03	4			0.106
	1	0.072	0.090	6	0.002		0.126

G3 Environmental Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Emissions, Effluents and Waste (Contd.)					
EN21	Total water discharge by quality and destination	Total volume of water discharged (m3)	10,062	9,210	14,278
			The Company checks the COD and BOD levels of the discharged water once a month and it's within the standards of the Central Environmental Authority. The Company discharges water to the municipal drainage system. The permissible standards stipulated by the Central Environmental Authority are COD - 250 mg/l BOD - 30 mg/l		
		COD level at the beginning of the year (mg/l)	160	48	132
		BOD level at the beginning of the year (mg/l)	90	06	18
EN22	Total weight of waste by type and disposal method	Total amount of waste generated tonnes	733	741	803
		Tonnes per million cigarette equivalent produced	0.14	0.15	0.09
			Waste from the Kandy leaf department is sent to a compost project. Since May 2007, waste from the factory in Colombo has been sent to a third party organization where they use it to generate energy.		
EN23	Total number and volume of significant spills		No significant spill of chemical, oil or fuel was reported during the period 2004 – 2009.		
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally		CTC does not produce, transport, import or export material deemed 'hazardous' under the terms of the Basel Convention Annex I, II, III and IV		
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharge of water and runoff		CTC discharges water into the municipal water drainage system.		
Products and Services					
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation		CTC's products have an environmental impact through litter associated with improper disposal after consumption. Data is not available to quantify the impact.		
EN27	Percentage of products sold and the packaging materials that are reclaimed		100% of the products are sold and none of the packing materials are reclaimed.		

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Compliance					
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations		CTC has not been fined for non-compliance with environmental laws and regulations.		
Transport					
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce		CTC continuously focused on reducing the impact to the environment as a result of transport emissions. A good example of this would be the efficient use of the lorries which transport processed tobacco being also utilised to dispatch finished goods as well as other requirements of the Kandy office on its return. Our Valued Business Partners have taken steps to move into more fuel efficient distribution modes. E.g. the use of motor bikes instead of three wheelers & use of three wheelers instead of vans. We have made use of state of the art telecommunication technology (video conferencing & web conferencing) to reduce travel of our management cadre which in turn result in savings on travel and impact on the environment.		

G3 Social Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
LABOUR PRACTICES AND DECENT WORK					
Employment					
LA1	Total workforce by employment type, employment contract, and region.	Full time	323	308	298
		Employment contract	76	68	64
		Temporary agency workers	380	430	346
		National on secondment overseas	11	17	17
		Secondees within the country	5	5	4
LA2	Total number and rate of employee turnover by age group, gender, and region	The employee turnover of the Company in 2008 was 8.1%. Technology improvements and adopting best practices has resulted in creating opportunities for a fewer number of multi-skilled employees rather than a large number of unskilled personnel. The net employee creation is given below.			
		The total number of employees in the reporting year minus the number of employees in the previous year	-29	-15	-10
		Total turnover	44	25	7
		Rate of turnover %	13.6	8.1	2.4
		Employee turnover by age	2007	2008	2009
		20-25	1	2	3
		26-30	6	5	2
		31-35	4	2	2
		36-40	3	-	-
		41-45	1	4	-
		46-50	2	1	-
		51-55	22	10	-
		>55	5	1	-
		Employee turnover by gender	2007	2008	2009
		M	33	24	6
		F	11	1	1
LA3	Benefits provided to full time employees that are not provided to temporary or part time employees, by major operations	Benefits offered by the Company to the full time employees are documented in the HR policies and include: - Reimbursement of employee education expenses - Financial assistance for undergraduate education extended to children of employees - Medical and health care (to employees and family) - Funeral assistance (to employees and family) - Loan schemes at subsidised interest rates			

<table>
<tr><th rowspan="2">GRI #</th><th rowspan="2">Indicator</th><th colspan="4">Performance</th></tr>
<tr><th>GRI Description</th><th>2007</th><th>2008</th><th>2009</th></tr>
<tr><td colspan="6">Labour/Management Relations</td></tr>
<tr><td>LA4</td><td>Percentage of employees covered by collective bargaining agreements</td><td>Only the non-executive workforce is covered by collective agreement and 100% of the non-executive workforce is covered. Percentage of the employees covered by collective agreement compared with the total number of employees are,</td><td>35.6%</td><td>36.0%</td><td>37.5%</td></tr>
<tr><td>LA5</td><td>Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.</td><td colspan="4">No minimum notice period is specified. However when there is a need for such an agreement, the time period with regard to the changes in operations would be decided by mutual agreement between the management and the union.</td></tr>
<tr><td colspan="6">Labour/Management Relations</td></tr>
<tr><td>LA6</td><td>Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programs.</td><td colspan="4">Departmental level Environment, Health and Safety (EHS) committees have been set up. Committee membership comprises managers, executives and shop floor employees. The entire workforce is represented by these committees.</td></tr>
<tr><td>LA7</td><td>Rate of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.</td><td colspan="4"><table>
<tr><th></th><th>2007</th><th>2008</th><th>2009</th></tr>
<tr><td>For the year</td><td></td><td></td><td></td></tr>
<tr><td>Rate of injury</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>No. of lost working days</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>No. of work related fatalities</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>Occupational disease</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
<tr><td>Absenteeism</td><td>Nil</td><td>Nil</td><td>Nil</td></tr>
</table></td></tr>
<tr><td>LA8</td><td>Education, training, counselling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases</td><td colspan="4">The Company conducts training and awareness programs for our employees about serious diseases like Swine Flue, HIV, Dengue, Cardiac diseases. The Company distributes leaflets with information related to above issues amongst the Company employees.</td></tr>
<tr><td>LA9</td><td>Health and safety topics covered in formal agreements with trade unions.</td><td colspan="4">Union members are in our safety committees and health committees. But we do not have any formal agreement with trade unions.</td></tr>
<tr><td colspan="6">Training and Education</td></tr>
<tr><td>LA10</td><td>Average hours of training per year per employee by employee category.</td><td colspan="4">The training provided to the employees by the Company in the year 2009 are as follows,<table>
<tr><th></th><th>2007</th><th>2008</th><th>2009</th></tr>
<tr><td>Average hours of training per employee for the entire Company</td><td>46.9</td><td>34</td><td>16.5</td></tr>
<tr><td>Management</td><td>80</td><td>41</td><td>28.6</td></tr>
<tr><td>Executives</td><td>17</td><td>19</td><td>23.7</td></tr>
<tr><td>Technicians / Multi skilled operators</td><td>43.77</td><td>42</td><td>31</td></tr>
</table></td></tr>
</table>

G3 Social Performance Indicators

GRI #	Indicator	Performance: GRI Description	2007	2008	2009
Training and Education (Contd.)					
LA11	Programs for skills management and life-long learning that support continuous employability.	The Company has a policy "To energise employees to reach greater heights of performance and to ensure that they have the capability and skills to achieve our vision". All training at CTC in non-binding and includes, assistance for self-learning through the self study assistance scheme & learning centre, professional membership, business awareness programmes for all employees. The following training programmes took place during the year 2009. 1. Executive Development Course (EDC) 2. Effective Leadership Program (ELP) 3. Marketing Excellence Series (MXS) 4. Are You In Control?(Risk Management) 5. Team Leaders Development Workshop (TLDW) 6. Product Knowledge 7. Business Awareness Program (BAP) The Company does not conduct any formal programs to assist employees in managing career endings. However when the need arise mentoring, coaching programs are conducted on individual basis.			
LA12	Percentage of employees receiving regular performance and career development reviews.	All employee performances are reviewed annually - Management cadre - carrier development and succession planning reviews are conducted twice a year through the talent review process - Executive cadre - talent review process is conducted once a year. - Non-executive – career development review is conducted once a year.			
Diversity and Equal Opportunity					
LA13	Composition of governance bodies and breakdown of employee per category according to gender, age group, minority group membership, and other indicators of diversity.	(see tables below)			

Employee per category according to gender

	Management	Executives	Clerical	Shop Floor
M	95	69	12	100
F	16	6	-	-

Employee per category according to age

	Management	Executives	Clerical	Shop Floor
20-25	9	18	-	-
26-30	27	6	-	3
31-35	17	7	1	14
36-40	15	6	-	5
41-45	12	10	-	15
46-50	19	15	10	37
51-55	12	13	-	26
55<	-	-	1	-

Employee per category according to service

	Management	Executives	Clerical	Shop Floor
0-5	41	32	1	15
6-10	28	7	-	10
11-15	8	4	-	1
16-20	4	7	-	20
21-25	9	8	4	34
26-30	20	16	4	13
>31	1	1	3	7

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Training and Education (Contd.)					
LA14	Ratio of basic salary of men to women by employee category.	For all employee categories the ratio of basic salary of men to women is 1 : 1			
HUMAN RIGHTS					
Investment and Procurement Practices					
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	The Company's core business is focused on manufacturing and marketing of cigarettes. There is no intention of diversifying its business in to any other non tobacco related areas. As such, there are no investment agreements.			
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	The agreements are entered with all suppliers and contractors after a comprehensive evaluation on guidelines set out by CTC. However the Company has not screened suppliers and contractors on human rights aspects as required by this indicator. Steps have been taken to incorporate this in to the evaluation going forward.			
HR3	Total hour of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	The Company does not have policy or a procedure to train employees on aspects of human rights.			
Non-Discrimination					
HR4	Total number of incidents of discrimination and actions taken.	No incidents of discrimination have been reported during the last three years. Clause 13 of the CTC Industrial Relations policy states that, "Services of an employee will not be terminated due to HIV or any other sickness, subject to our premature retirement policy. Employment will be provided to partially disabled persons depending on the requirement and the nature of the work. Any persons prior to recruitment or once employed will be treated equally, irrespective of their sex, age, race, religion etc."			
Freedom of Association and Collective Bargaining					
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and action taken to support these rights.	No operations have been identified with any risk. The employee union in the Company is given a fair opportunity and all the freedom to express their opinions and there is a collective agreement signed once in every three years, between the Company and the union where always a win-win situation is agreed upon.			
Child Labour					
HR6	Operations identified as having significant risks for child labour, and measures taken to contribute to the elimination of child labour.	The Company conforms to the labour laws of Sri Lanka and British American Tobacco guidelines and therefore does not employ any person under the age of 18. Further British American Tobacco global policies clearly depict the principles adopted by the Company on child labour and eliminating the same. While age verification is done prior to commencement of formal interviews at office level, every action is taken to eliminate child labour in the "crop to consumer" process of the Company.			
Forced and Compulsory Labour					
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measurers to contribute to the elimination of forced or compulsory labour.	The Company does not adopt a practice of bonding an employee to execute forced labour. Towards ensuring this, the Company as a policy does not retain any original documents belonging to the employee. This is ensured by the employee's acknowledgement of receiving all original documentation, stated and signed as a clause in the copy of the letter of appointment.			

G3 Social Performance Indicators

GRI #	Indicator	Performance: GRI Description	2007	2008	2009
Training and Education (Contd.)					
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to the operations.	CTC has not trained the security personnel specifically on human rights. However, all inquiries and disciplinary matters are dealt within the statutory labour laws and in accordance with the Collective Agreements between CTC and the unions. Relevant security personnel handling these inquiries are trained by the Company to ensure that they are done in accordance with the Company policies taking into consideration the human rights that are relevant to the operations. While relevant induction training is given for security staff as per training modules on initial employment, refresher training is conducted biannually for security officers. Security Executives are trained on investigating and carrying out inquiries which is carried out by the Employer's Federation of Ceylon (EFC) in keeping with all aspects of human rights.			
Indigenous Rights					
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.		Nil	Nil	Nil
SOCIETY					
Community					
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	All stakeholder concerns are mapped through the robust social reporting process initiated by the Company since December 2001. Through this process of listening and responding to stakeholders reasonable expectations, CTC is able to asses and manage the impacts of operations on society at large. The progress is monitored at CSR Steering Committee meetings chaired by the Chairman and CEO where each concern and deliverable is reviewed and reported on.			
Corruption					
SO2	Percentage and total number of business units analysed for risks related to corruption.		100% Risk based audits have been carried out in all divisions (CORA, Marketing, Human Resource, Finance, Supply Chain, IT)	100%	100%
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.		100%	100%	100%
SO4	Actions taken in response to incidents of corruption.	No incidents of corruption have been reported for 2007, 2008 & 2009			
Public Policy					
SO5	Public policy positions and participation in public policy development and lobbying.	By statute there is no requirement to seek public opinion. Only when a public policy is legislated the general public including CTC can make observations, amendments or suggestions.			
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.		Nil	Nil	Nil
Anti-Competitive Behavior					
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes.		Nil	Nil	Nil

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Compliance					
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations.		Nil	Nil	Nil
PRODUCT RESPONSIBILITY					
Customer Health and Safety					
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	The concept of harm reduction is increasingly being considered in relation to tobacco use and it is a key element of the business strategy of British American Tobacco. For more information visit the Health and Science section at www.bat.com.			
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.		Nil	Nil	Nil
Product and Service Labeling					
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	The Consumer Affairs Authority Act No 9 of 2003 section 10 (1)(a) empowers the Authority to issue directions to manufacturers or traders in respect of price, labeling and packing of goods. Under this direction tobacco manufacturers are compelled to carry the Government Health Warning on all packs as stipulated in such direction. CTC complies with the regulation by printing the Government health warning on all packs.			
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.		Nil	Nil	Nil
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	CTC adopts several mechanisms to measure customer (Trade Partners) satisfaction. The research conducted as listed below adheres to all Company policies. 1. Customer satisfaction survey – Traders measured against other FMCGs (once in two years) 2. Customer satisfaction survey - Distributors (annually) 3. Consumer Product Quality Index (CPQI) - (annually)			

G3 Social Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Marketing Communications					
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Since the introduction of NATA Act in December 2006, significant resources have been deployed by the Company to ensure adherence to the letter and spirit of the act. All the employees and valued business partners of the Company were educated on the Act. Even before the NATA Act in 2006, CTC's Voluntary Code of Conduct was launched in March 2000 and the Enhanced Code of Conduct in December 2002. All CTC staff and valued business partners were educated about the Code. Other stakeholders were informed through media campaigns. Under this law CTC does not engage in advertising, promotions or brand sponsorships.			
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.		Nil	Nil	Nil
Customer Privacy					
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.		Nil	Nil	Nil
Compliance					
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services.		Nil	Nil	Nil

G3 Economic Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Economic Performance					
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.		Rs. Mn	Rs. Mn	Rs. Mn
		Gross revenue	46,827	54,763	58,079
		Supplied materials & services (excluding donations and CSR activities)	(4,651)	(5,246)	(3,569)
		Net interest income	286	445	416
		Other operating income	11	60	93
			42,473	**50,022**	**55,019**
		State	39,317	45,613	49,346
		Shareholders	1,798	2,351	3,434
		Employees	917	1,018	1,235
		Donations and CSR activities	120	406	121
		Depreciation	225	224	202
		Retained Profit	96	410	681
			42,473	**50,022**	**55,019**
EC2	Implications and other risks for the organisation's activities due to adverse macro economic conditions.	Increasing regulatory pressure	Decrease in sales volumes		
		High inflation	Increase in the cost base and decrease in sales volumes due to lower disposable income of the consumers		
		Exchange rate fluctuation	Unfavourable impact on imports of production materials		
		Economic growth rate	Consumers disposable income is affected		
		Increasing government expenditure	Excise led price increases will result decrease in sales volume, loss of market share to illicit products		
		Deteriorating security/political environment	Sales volumes and profitability are affected		
EC3	Coverage of the organization's defined benefit plan obligations.	The liability to pay retirement gratuity under the Payment of Gratuity Act No 12 of 1983 is a defined benefit plan of which the liability is funded by way of an insurance policy. Under this scheme, employees having a service of 5 to 10 years will receive half a month salary for every year of service and employees having more than 10 years service will receive one month's salary for every year of service, when they leave the Company. The Company also contributes 15% and 3% respectively for the Employee Provident Fund (EPF) and Employee Trust Fund (ETF)			
		Gratuity liability as at 31st Dec (Rs. Mn)	412.2	626.8	874.4
		Value of gratuity scheme assets as at 31st Dec (Rs. Mn)	457.2	665.4	874.4
		EPF (annual contribution)	41	54.5	54.0
		ETF (annual contribution)	8.3	9.8	10.9
EC4	Significant financial assistance received from government.		Nil	Nil	Nil
Market Presence					
EC5	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	The Company policy is to procure goods and services to meet our requirements & standards at the lowest available price.			
		Total indirect spend on suppliers (Rs.Mn)	1,506	1,840	2,241

G3 Economic Performance Indicators

GRI #	Indicator	Performance			
		GRI Description	2007	2008	2009
Market Presence (Contd.)					
EC6	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	At CTC succession planning is available for all employees. Vacancies created at the managerial entry level are mainly filled by the recruitment of management trainees. When the requirement for a management trainee is realised by the Company internal and external advertisements are placed. Then the first round interviews are conducted and a minimum number of candidates is short listed. Then the short listed candidates have to undergo an ability test and they are assessed in an assessment centre for a full day. Through the assessment centre they are short listed again for the final interview. Technicians and Trade Marketing Executives (TME) are selected through a process of two rounds of interviews and an assessment centre. If specialised roles are required they are filled through head hunting. Currently the Company has 17 senior managers and 14 of them are locally hired.			
Indirect Economic Impacts					
EC7	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	The Company was involved in Tsunami relief activities by building 80 houses in Hikkaduwa, 52 houses in Thirukkovil. With the security situation improving in the North, CTC has embarked on building 75 houses in Jaffna & is schedule to be completed in 2010. CTC will fund two third of the cost and North East Community Restoration and Development Project (NECORD), will fund the balance. CTC has made a pledge to improve infrastructure facilities in the North at a cost of over Rs. 150 million in 2010. The Company in its efforts to alleviate poverty has launched a programme named Sustainable Agricultural Development Program (SADP) which is a unique concept developed by the Company based on the philosophy "We help those who are willing to help themselves". The SADP concept is based on knowledge transfer, creating a paradigm shift in attitude amongst rural community living below the poverty line, a policy of no direct financial assistance but one of assistance through agricultural seeds, animal husbandry and skills. The focus lies in creating a long-term engagement between the farmer and his avenue for reaching self-sustenance. The concept is a unique example of how a sequence of measures, all inter-linked, contribute to raising income levels and the standard of living of rural community. The project is executed in three stages and an entire cycle takes approximately two and a half years. It is hoped that by 2011, the concept will be extended to positively benefit 10,000 of rural households. The above programme was further enhanced & was launched in the East of Sri Lanka, named "Sustainable Agricultural Development Programme Plus" (SADP Plus). Three villages from Trincomalee district were selected for this programme namely Thampalakamam, Gomarankadawala & Morawewa where CTC has already registered 1,475 families and plans to register additional 525 families by end of March 2010.			
EC8	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Through the CSR projects (SADP & SADP Plus) what the Company expect to achieve is poverty alleviation by empowering people. Through the SADP project the Company will help poor people to come out of poverty and be self sufficient in 2 1/2 years. Currently there are approximately 3 million people who live below the poverty line in Sri Lanka. The Company is confident that through this program by 2011 the Company can make a difference to at least 14,000 families who will be in a position to sell their excess produce and thereby achieve economic independence.			

Corporate 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. 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 Company currently has a Board of 8 Directors; the Chairman, 2 Executive Directors – the Chief Executive Officer ("CEO") and the Finance Director – and another 5 Non Executive Directors. Their profiles appear on the pages 14 and 15. 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 position of Chairman and CEO are kept separate in line with good governance practice. All meetings of the Board and the sub-committees were well attended during the year. All Board members have specific responsibilities in controlling and setting direction through the various Board Committees.

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

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

Audit Committee:
The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance and the conduct of business in accordance with the Standards of Business Conduct of British American Tobacco PLC (BAT). Please refer pages 65 and 66 for the Report of Audit Committee.

Board Compensation Committee:
The Board Compensation Committee is chaired by the Chairman of the Company. The Committee determines the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors and the Executive Committee. Please refer page 67 for the Report of Board Compensation Committee.

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

Appointments and Re Election to the Board:
The Chairman is elected for a term of 5 years and the Directors are appointed for a term of 3 years subject to re-election for another term of 3 years. One-third of the Directors, retire by rotation on the basis prescribed in the articles of the Company. A Director retiring by rotation is eligible for re-election by a shareholder resolution at the annual general meeting. All Directors are subject to election by shareholders at the first AGM after their appointment. A well structured induction program is conducted for newly appointed Directors of the Company.

Performance of the Board:
Annually, the performance of the Board members is reviewed against the recommended checklist of the Institute of

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

Standard of Business Conduct:
Operating under the guidance of Standard of Business Conduct for a number of years, the Company has been maintaining an exemplary standard of business conduct. Clearly communicated to employees across the organisation 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 whistle-blowing, 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 whistle-blowing 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, whistle blowing, information and IT security are clearly laid out and communicated to staff at all levels. The security and safety of staff is a key priority. Our employment principles for which compliance continuously monitored includes: fairness and dignity at work, standards of business conduct and performance and environmental responsibility.

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

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

The Risk and Control department conducted a program for managers and executives of the Company aimed at increasing the awareness of the key principles of risk management, internal controls and corporate governance.

Attendance at Board and Board Committee Meetings

Name	Board of Directors	Audit Committee	Nominations Committee	Board Compensation Committee	CSR Committee
Jayampathi Bandaranayake *	04/04 +		01/01 +	01/01 +	02/02 +
Mustanser Ali Khan	04/04	02/02 ^	01/01	01/01 ^	02/02
Vijaya Malalasekara *	04/04				01/02
Desamanya Deva Rodrigo **	04/04	02/02 +		01/01	
Susantha Ratnayake **	03/04	01/02	01/01	01/01	
Mobasher Raza *	03/04				
Ariyaratne Hewage **	04/04				02/02
Bruce Jalleh	04/04	02/02 ^		01/01 ^	02/02
Steve Rush ***		01/02			
Shaiful Bahari ***					01/02
Ali Nazeer ***					01/02

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

Corporate Governance Compliance Table

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.1(a)	Non-Executive Directors	At least one-third of the total number of Directors should be Non-Executive Directors	Complied	Six out of eight Directors are Non-Executive Directors
7.10.2(a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher should be independent	Complied	Three out of six Non-Executive Directors are independent
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Complied	Non-Executive Directors have submitted the declaration in prescribed format
7.10.3(a)	Disclosure relating to Directors	a The Board shall make a determination annually as to the independence or non independence of each Non Executive Director	Complied	The Board has carried out the determination according to criteria in rule 7.10.4
		b Names of independent Directors should be disclosed in the Annual Report	Complied	Please refer the report on Corporate Governance of the Annual Report on pages 51 and 52
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as independent, but if the Board is of the opinion that the Director is nevertheless independent, shall specify the criteria not met and the basis for the determination in the Annual Report	Not Applicable	No such determination has been made by the Board as all three independent Directors met the criteria as per rule 7.10.4
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Complied	Please refer the section of Board of Directors of the Annual Report on pages 14 and 15
7.10.3(d)	Disclosure relating to Directors	Upon appointment of a new Director to the Board, a brief resume of each Director should be provided to the CSE.	Not Applicable	No new appointments to the Board during 2009
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Complied	Please refer the report of Board Compensation Committee on page 67
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Complied	Board Compensation Committee consists of 3 Non-Executive Directors of which two are independent
7.10.5(b)	Functions of Remunerations Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Complied	Please refer the report of Board Compensation Committee on page 67

Corporate Governance Compliance Table (Contd.)

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.5(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out; a Names of Directors comprising the Remuneration Committee	Complied	Please refer the report on Corporate Governance on pages 51 and 52
		b Statement of remuneration policy	Complied	Please refer the report of Board Compensation Committee on page 67 for brief statement of policy
		c Aggregate remuneration paid to Executive & Non Executive Directors	Complied	Please refer the note number 10 to the financial statements
7.10.6	Audit Committee	The Company shall have an Audit Committee	Complied	Please refer the report of Audit Committee on pages 65 and 66
7.10.6(a)	The composition of Audit Committee	a Shall comprise Non-Executive Directors, a majority of whom can be independent	Complied	Audit Committee consists of two independent Non-Executive Directors and one Non Executive Member
		b Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Complied	Chief Executive Officer and the Chief Financial Officer attend the meetings by invitation
		c The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Complied	The Chairman of the Audit Committee is a Fellow Member of Institute of Chartered Accountants of Sri Lanka
7.10.6(b)	Audit Committee Functions	Should be as outlined in the Section 7.10 of the listing rules	Complied	Please refer the report of Audit Committee on pages 65 and 66
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a Names of Directors comprising the Audit Committee	Complied	Please refer the report of Audit Committee on pages 65 and 66
		b The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Complied	Please refer the report of Audit Committee on pages 65 and 66
		c The Annual Report shall contain a report of the Audit Committee setting out the manner of compliance of the functions	Complied	Please refer the report of Audit Committee on pages 65 and 66

Other Directorships of Directors

Name of the Director	Name of the Company	Position held
J.D.Bandaranayake	Hayleys PLC	Director
	Finlays PLC	Director
	Sampath Bank PLC	Director
	Westcoast Power (Pvt) Limited	Director
	Coca Cola Beverages Lanka Limited	Director
	Jay-Vin Investments & Enterprises	Director
Mustanser Ali Khan	British American Tobacco SAA Services (Private) Limited	Director
	CTC Services Limited	Director
	CTC Leaf Exports Limited	Director
	Advent International Limited	Director
V.P.Malalasekera	Carson Cumberbatch PLC	Director
	Brown and Company PLC	Director
	Bogala Graphite Lanka PLC	Chairman
	Ascot Holdings PLC	Chairman
	Boston Capital (Pvt) Limited	Chairman
	Axis Financial Services (Pvt) Limited	Chairman
	CKR Tea (Pvt) Limited	Chairman
	Fairway Condominiums (Pvt) Limited	Chairman
	Boston Asset Management (Pvt) Limited	Chairman
	MSH Packaging (Pvt) Limited	Chairman
	Taprobane Investments (Pvt) Limited	Director
	Galoya Holdings (Pvt) Limited	Director
	Taprobane Holdings Limited	Director
	Taprobane Securities (Pvt) Limited	Director
	Taprobane Plantations Limited	Director
	Taprobane Mutual Fund Limited	Director
	Taprobane Fund Management Limited	Director
	Lexinton Holdings (Pvt) Limited	Director
Bruce Jalleh	CTC Services Limited	Director
Desamanya P.D.Rodrigo	John Keells Holdings PLC	Director
	Stanley & Davidson Property Holdings (Pvt) Ltd	Director and Owner
	Chevron Lubricants Lanka PLC	Director
Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mobasher Raza	Pakistan Tobacco Company Limited	Director

Financial Review

Environment: Progressively brightening
2009 was a definitive year for Sri Lanka. The cessation of hostilities in the North, the drastic reduction of inflation and the increase in reserves by the end of 2009 augurs well for Sri Lanka going forward.

The GDP growth rate of approximately 3.5% in 2009 was lower than that of 6.0% in 2008; however it was achieved against the backdrop of adverse global economic conditions. Inflation also averaged at 3.4%, significantly lower than the 22.6% recorded in 2008. The improving economic climate was also reflected in the Stock Market, which celebrated its position as the 2nd best stock market performance in the world in 2009.

Sales Volume: Lower year-on-year
The Company's sales volume in 2009 declined by 5% relative to 2008, as a result of higher excise-led price increases and diminished consumer affordability. There was one price increase early in the year, which averaged 12%. The share of the Company's three main brands, Dunhill, John Player Gold Leaf and Pall Mall improved, however, at the expense of counterfeit and smuggled cigarettes.

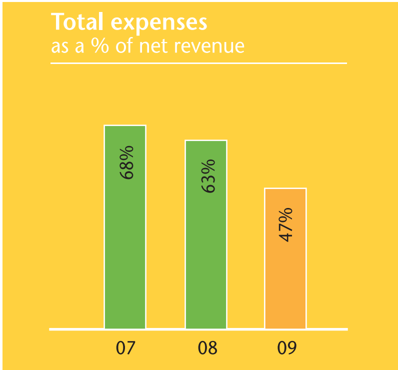
Government Revenue: Over Rs. 50 billion contributed in 2009
The tobacco industry contributed a total of Rs. 52.4 billion to Government revenue in 2009, an increase of Rs. 3.9 billion relative to 2008. Levies, duties and taxes grew to Rs. 49.3 billion as a result of excise-led price increases and an improved brand mix. Provincial Council Tax grew to Rs. 3.1 billion.

The Company's revenue and contribution to Government taxes and levies benefited from robust law enforcement to curb the growth of counterfeit and smuggled cigarettes. 1,890 seizures were made in 2009, resulting in the confiscation of 79 million sticks of counterfeit and smuggled cigarettes valued at over Rs. 1 billion. This was more than double that of 2008.

Financial Results: Aggressive productivity and cost management initiatives
Gross revenue grew to Rs. 58.1 billion in 2009 due to the increase in average sales prices and an improved brand mix, offset by lower volumes.

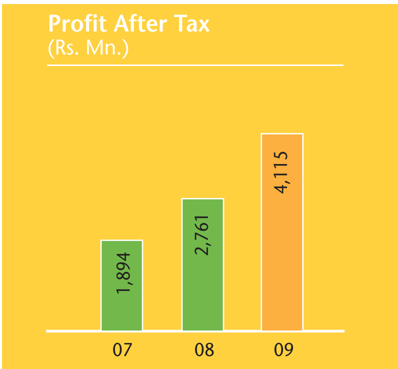
The aggressive productivity and cost management initiatives which the Company implemented in 2008 and early 2009 have significantly reduced operating expenses and contributed to the growth in profit after tax to Rs. 4,115 million. The cost management initiatives were across the organisation, and arose from the streamlining of factory operations, marketing, distribution and corporate overheads. This enabled the Company to offset the impact of higher tobacco leaf prices and restructuring costs incurred during the period. Total expenses as a percentage of net revenue reduced to 47% in 2009, continuing the declining trend from 63% in 2008 and 68% in 2007.

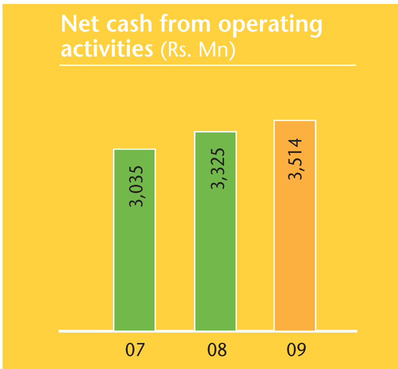
The Company made good progress in its flagship Corporate Social Responsibility initiative, the Sustainable Agricultural Development Programme (SADP). The total number of families enrolled to date was 7,045. Of these, 1,475 families were from the Eastern province. 941 families have attained the economic self sufficiency targets set by the programme.

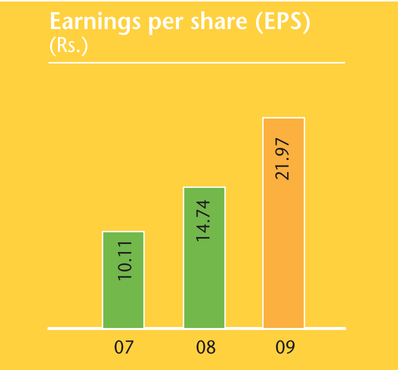


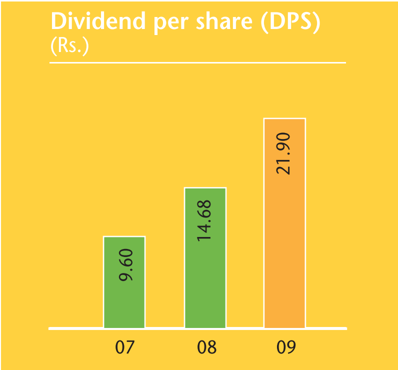
The income tax expense of Rs. 2,920 million in 2009 returned an effective tax rate of 41.5%. The higher rate stemmed from adding back disallowable expenditure, including part of the new Nations building levy.

Cash: Profit growth and cash management
The net cash generated from operating activities achieved a growth of Rs. 189 million in 2009, which can directly be attributable to the operating profit growth and persistently better managed working capital offset by comparatively higher income tax payments.









Additions of Property, Plant & Equipment and intangible assets for the year were Rs. 313 million, of which Rs. 111 million were from construction in progress at the start of the year.

Shareholder Value: An exceptional year
The Earnings per share of Rs. 21.97 for 2009 was Rs. 7.23 higher than that of 2008. The Dividend per share (including the proposed final dividend of Rs. 5.70 to be approved by shareholders at the forthcoming Annual General Meeting) increased to Rs. 21.90 from Rs. 14.68 in 2008.

In line with the Stock Market's stellar growth in 2009, the Company's share price rose from Rs. 66.00 at the end of 2008 to Rs. 185.00 at the end of 2009. The Company's market capitalisation similarly rose from Rs. 12.4 billion at the end of 2008 to Rs. 34.7 billion at the end of 2009.

The total shareholder return for 2009, consisting of dividend and share price appreciation was Rs. 140.90 per share for 2009.

Going Forward: Investing in productivity / innovation and curbing illicit / unauthorised products
Sri Lanka's growth prospects are increasingly favourable. As such, the Company will strive to capitalise on the new opportunities available in 2010 to maximise shareholder value. This will include investment in productivity projects and innovation that will provide sustainable growth in the long term.

Key risks that the Company has foreseen are illicit trade, excise and taxes, regulations and the increase in the cost base. The Company will endeavour to manage these key risks going forward. Engagement will continue with the relevant stakeholders to ensure fair enforcement of tobacco regulation. The Company 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
28th January 2010

Risk Management

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

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 adopted from those provided by the Committee of Sponsoring Organisations (COSO) and the Institute of Risk Management (IRM) Frameworks to reflect BAT's requirements for risk.

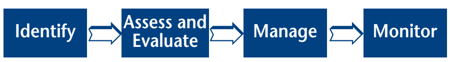
CTC adopts the 'British American Tobacco (BAT) Area Risk Management Framework' issued by BAT Global Audit. This is a basic, but formal risk management framework using standard templates and metrics. The risk management framework and risk communication process highlights the high risk areas. The offer of support is always available as needed, from all areas and across all layers of the organisation.

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

Risk management process

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

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



Risk identification

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

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.

Key foreseeable risks

Illicit trade

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

Excise and taxes

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

Regulations

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

Increased cost base

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

Crisis management and business continuity plans (BCPs)

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

Testing of business continuity plans

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 of the testing are discussed in the Risk Management Committee and 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 using the risk register of the Company mainly focusing the processes linked to high risk areas. The controls to mitigate the key risks are audited giving assurance to the management and to the Board that the 'key controls' are in place.

Statement of Internal Controls

The Board of Directors has overall responsibility for the Company's system of internal 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 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 unauthorised use or disposition
- Reliability of financial and other management information
- The prevention of fraud
- Compliance with relevant national laws and company regulations

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

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

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

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

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The Audit Committee, whose functions are described in the Corporate Governance Statement and the Report of the Audit Committee, met twice during 2009. To ensure complete independence, the external auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matters of substance. The external auditors attended all Audit Committee meetings. The External Audit Strategy Memorandum and audit issues on completion of statutory audit are presented at these meetings. Functional heads are required to provide annual written confirmation to the Audit Committee that they comply with the policy statement on internal control. These best practices were complied with during the year 2009.

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

Mustanser Ali Khan
Managing Director & Chief Executive Officer

Bruce Jalleh
Finance Director

28th January 2010

Report of the Directors

The Directors have great pleasure in presenting their report to the members for the year ended 31st December 2009, together with the audited consolidated financial statements of the Company and for the Group.

Group structure and key activities

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

84.13%

Ceylon Tobacco Company PLC

Principal activity

Manufacture & Marketing of Cigarettes & Export of Cigarettes

Subsidiaries

CTC Services Limited	Going Concern
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 2009.

Group results for the year 2009 and appropriations

	Rs. 000's	Rs. 000's	Rs. 000's
Retained profit as at 1st January 2009			787,999
Current year's profit after charging all expenses and providing for all known liabilities		4,114,612	
Dividends			
Dividends of Rs. 18.33 per share on the stated capital of 187,323,751 shares			
2008 Final Dividend - Rs. 2.13 per share paid on 01/04/09			
First Interim dividend - Rs. 2.50 per share paid on 15/05/09			
Second Interim dividend - Rs. 4.00 per share paid on 14/08/09			
Third Interim dividend - Rs. 4.40 per share paid on 24/11/09			
Fourth Interim dividend - Rs.5.30 per share paid on 22/01/10			
• Net dividend	3,091,266		
• Dividend Tax	342,378	(3,433,644)	680,968
Write back of unclaimed dividends			2,136
Balance carried forward to 2010			1,471,003

Interim dividends of Rs. 3,035 million have been paid from current year company profits after tax of Rs. 4,115 million.

The Directors recommend the payment of a final dividend from current year company profits of Rs. 5.70 less tax for 2009 subject to approval by the Shareholders at the forthcoming Annual General Meeting on 19th March 2010. 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. 313 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. 121 million on Corporate Social Responsibility activities and this includes Rs. 10.7 million 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)*

	2009	2008	Growth %
• No of Shares	187,323,751	187,323,751	-
• Earnings per share - Rs.	21.97	14.74	49.0
• Net assets per share - Rs.	17.93	14.29	25.5
• Market price per share - Rs.	185.00	66.00	180.3
• Price earnings ratio	8.42	4.48	87.9
• Dividends per share - Rs.	21.90	14.68	49.2
• Dividend yield %	11.83	22.24	-46.8

Directorate

The names of the Directors are disclosed in Pages 14 and 15 of the Annual Report

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 Mobasher Raza and Susantha Ratnayake retire from the Board of Directors by rotation at the Annual General Meeting and being eligible, be proposed for re-election.

In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9th November 2009) retires at the conclusion of the Annual General Meeting, but seeks re-election as a Director of the Company notwithstanding his age , in terms of notice dated 15 January 2010 received from the British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage

Directors' interest in contracts and related party transactions

Directors' interest in contracts and related party transactions 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	2009	2008
J.D. Bandaranayake	178,335	157,035
V.P. Malalasekera	7,564	7,564
Susantha Ratnayake	410	410
Total	186,309	165,009

No Director other than those disclosed above have any shareholding.

Future developments

Future company developments are covered in the Chairman's statement, Chief Executive Officer's Statement, and Financial Review.

Reserves

Total Group reserves as at 31st December 2009 amount to Rs. 1,486 million comprising Capital Reserves of Rs. 15 million and Revenue Reserves of Rs. 1,471 million. Movements are shown in the Statement of Changes in Equity in the financial statements. This does not include the final dividend of Rs. 1,068 million.

Major shareholdings

The 20 major shareholders and percentages are disclosed on page 93.

Employee share ownership plans

The Group has no share ownership plans as at 31st December 2009. The details of employee share option scheme of BAT group are explained in note 27 of the financial statements.

Statutory payments

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

Going concern

The 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 & Company 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

28th January 2010

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 external auditors.

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

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

Compliance report

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

Mustanser Ali Khan
Managing Director & Chief Executive Officer

Bruce Jalleh
Finance Director

28th January 2010

Report of the Audit Committee

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

The members of the Audit Committee are
Desamanya Deva Rodrigo,
Mr. Susantha Ratnayake, and
Mr. Steve James Rush.

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 two times during the year. Attendance by the committee members at each of these meetings is given in the table on page 52 of the annual report. All the invitees including external audit and internal audit personnel attended the meeting regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

Activities
The Committee carried out the following activities:

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

Internal Audit
The Committee approved the internal audit plan for 2009 at the beginning of the year and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored. Also the resource requirements and the succession plans of internal audit department were reviewed.

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

External Audit
The Committee reviewed and approved the external audit strategy for 2009 including the audit scope.

The Committee reviewed the Management Letter issued by the External Auditors together with the management response thereto.

The letter of representation issued to the external Auditor was reviewed by the Committee.

The Audit Committee reviewed the effectiveness of the external auditors and 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. The Audit Committee also reviewed the fees payable, Non-Audit Services provided and the timing of rotation of Lead Audit Partner to ensure the independence of the Auditor.

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.

Good Governance

The Committee noted the Statement of Business Conduct (SOBC) submitted by management to the Group, including incidents of non-compliance and whistle blowing incidents. The Committee also reviewed the Loss Reports and regularly monitored compliance with laws and regulations.

Audit Committee Effectiveness

The annual survey of the audit committee effectiveness was conducted by each member of the Committee, Chief Executive Officer, Finance Director and the External Auditor in accordance with best practice. The results were satisfactory.

Conclusion

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.

Chairman, Audit Committee.
28th January 2010

Desamanya Deva Rodrigo
Susantha Ratnayake
Steve James Rush

Board Compensation Committee Report

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

The scope of the committee includes the following

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

The Board Compensation Committee met on one occasion during the year 2009.

During the above meeting 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 the emphasis being on pay for performance & retaining the high potential employees of the company while also 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,
28th January 2010

FINANCIAL STATEMENTS

Independent Auditors' Report

KPMG Ford, Rhodes, Thornton & Co.
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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 ("Company"), and the consolidated financial statements of the Company and its subsidiaries as at December 31, 2009, which comprise the balance sheet as at December 31, 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 70 to 90 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, 2009 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2009 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, 2009 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.

Ford Rhodes Thornton & Co.

CHARTERED ACCOUNTANTS
Colombo.
28th January 2010.

Income Statement

For the year ended 31st December	Note	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
Gross revenue	8	58,079,487	54,763,053	58,079,487	54,763,053
Government levies	8	(45,725,572)	(43,583,250)	(45,725,572)	(43,583,250)
Net revenue	8	12,353,915	11,179,803	12,353,915	11,179,803
Other operating income	9	92,616	60,439	92,616	60,439
Raw materials used		(2,387,250)	(1,616,930)	(2,387,250)	(1,616,930)
Employee benefits expenses	10	(1,235,340)	(1,018,581)	(1,235,340)	(1,018,581)
Depreciation and amortisation expenses		(202,479)	(224,175)	(202,479)	(224,138)
Other operating expenses		(2,002,829)	(4,210,648)	(2,002,929)	(4,210,648)
Net interest income	11	416,353	444,793	416,353	444,793
Profit before income tax	10	7,034,986	4,614,701	7,034,886	4,614,738
Income tax expense	12	(2,920,374)	(1,853,992)	(2,920,374)	(1,853,992)
Profit for the year		4,114,612	2,760,709	4,114,512	2,760,746
Attributable to					
Equity holders		4,114,612	2,760,709		
Minority		-	-		
Profit for the year		4,114,612	2,760,709		
Basic earnings per share (Rs.)	13	21.97	14.74	21.96	14.74

The above income statements are to be read in conjunction with notes to the financial statements on pages 74 to 90.

Balance Sheet

As at 31st December	Note	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
Non-current assets					
Property, Plant & Equipment	14	1,531,612	1,576,168	1,531,612	1,575,530
Intangible assets	15	20,383	20,879	20,383	20,879
Investments in subsidiaries	16	-	-	500	500
Receivables	17	197,203	184,858	197,203	184,858
Total non-current assets		1,749,198	1,781,905	1,749,698	1,781,767
Current assets					
Inventories	18	2,324,552	2,571,763	2,324,552	2,571,763
Trade & other receivables	17	926,094	956,966	927,789	958,999
Cash and cash equivalents	19	5,766,250	5,375,812	5,765,938	5,375,691
Total current assets		9,016,896	8,904,541	9,018,279	8,906,453
Total assets		10,766,094	10,686,446	10,767,977	10,688,220
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		1,471,103	787,999	1,472,986	789,982
Total equity attributable to equity holders		3,359,341	2,676,237	3,361,224	2,678,220
Non-current liabilities					
Provision for employee benefits	21	5,209	6,319	5,209	6,319
Deferred taxation	22	130,354	246,175	130,354	246,175
Total non-current liabilities		135,563	252,494	135,563	252,494
Current liabilities					
Trade and other payables	23	4,902,629	5,411,070	4,902,629	5,410,861
Current taxation	24	1,312,524	1,377,481	1,312,524	1,377,481
Dividends payable	25	992,816	899,154	992,816	899,154
Unclaimed dividends	25.2	42,452	31,670	42,452	31,670
Bank overdraft	19	20,769	38,340	20,769	38,340
Total current liabilities		7,271,190	7,757,715	7,271,190	7,757,506
Total liabilities		7,406,753	8,010,209	7,406,753	8,010,000
Total equity and liabilities		10,766,094	10,686,446	10,767,977	10,688,220
Net assets per share		17.93	14.29	17.94	14.30

The above balance sheets are to be read in conjunction with notes to the financial statements on pages 74 to 90.
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 of Directors,

Mustanser Ali Khan
Managing Director & Chief Executive Officer

Bruce Jalleh
Finance Director

Colombo
28th January 2010

Cash Flow Statement

	Group		Company	
For the year ended 31st December	2009	2008	2009	2008
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
Cash flows from operating activities				
Cash generated from operations (refer B)	6,618,757	4,759,165	6,619,204	4,759,257
Interest paid	(2,183)	(8,651)	(2,183)	(8,651)
Income taxes paid	(3,101,152)	(1,423,884)	(3,101,152)	(1,423,884)
Gratuity paid	(1,110)	(1,824)	(1,110)	(1,824)
Net cash from operating activities	3,514,312	3,324,806	3,514,759	3,324,898
Cash flows from investing activities				
Purchase of Property, Plant & Equipment	(188,666)	(257,218)	(189,304)	(257,218)
Purchase of intangible assets	(13,410)	(400)	(13,410)	(400)
Proceeds from disposal of Property, Plant & Equipment	4,301	9,789	4,301	9,789
Interest received	418,536	453,444	418,536	453,444
Net Cash from investing activities	220,761	205,615	220,123	205,615
Cash flows from financing activities				
Dividends paid	(3,327,064)	(2,212,550)	(3,327,064)	(2,212,550)
Net cash used in financing activities	(3,327,064)	(2,212,550)	(3,327,064)	(2,212,550)
Net increase in cash & cash equivalents	408,009	1,317,871	407,818	1,317,963
Cash & cash equivalents at the beginning of the year	5,337,472	4,019,601	5,337,351	4,019,388
Cash & cash equivalents at the end of the year (refer A)	5,745,481	5,337,472	5,745,169	5,337,351
A. Analysis of cash & cash equivalents at the end of the year				
Cash in hand & bank balances	152,356	33,461	152,044	33,340
Short term investments	5,613,894	5,342,351	5,613,894	5,342,351
Bank overdraft	(20,769)	(38,340)	(20,769)	(38,340)
	5,745,481	5,337,472	5,745,169	5,337,351
B. Cash generated from operations				
Profit before income tax	7,034,986	4,614,701	7,034,886	4,614,738
Depreciation & amortisation expenses	202,479	224,175	202,479	224,138
Interest income	(418,536)	(453,444)	(418,536)	(453,444)
Interest expense	2,183	8,651	2,183	8,651
Property, Plant & Equipment and Intangible assets write off	44,291	147,980	44,291	147,980
Provision for obsolete inventories/ doubtful debts	28,787	7,234	28,787	7,234
Profit on disposal of Property, Plant & Equipment	(3,943)	(8,681)	(3,943)	(8,681)
Operating profit before working capital changes	6,890,247	4,540,616	6,890,147	4,540,616
(Increase)/Decrease in inventories	274,508	(468,372)	274,508	(468,372)
(Increase)/Decrease in trade & other receivables	(37,558)	288,171	(37,220)	288,263
Increase/(Decrease) in trade & other payables	(508,440)	398,750	(508,231)	398,750
	6,618,757	4,759,165	6,619,204	4,759,257

The above cash flow statements are to be read in conjunction with notes to the financial statements on pages 74 to 90.

Statement of Changes in Equity

Group (Rs. '000s)	Note	Stated Capital	Capital Reserves	Retained Earnings	Total
Balance as at 1st January 2008		1,873,238	15,000	373,816	2,262,054
Profit for the year				2,760,709	2,760,709
Dividends	25			(2,350,913)	(2,350,913)
Write back of unclaimed dividends	25.2			4,387	4,387
Balance as at 31st December 2008		1,873,238	15,000	787,999	2,676,237
Profit for the year				4,114,612	4,114,612
Dividends	25			(3,433,644)	(3,433,644)
Write back of unclaimed dividends	25.2			2,136	2,136
Balance as at 31st December 2009		1,873,238	15,000	1,471,103	3,359,341

Company (Rs. '000s)	Note	Stated Capital	Capital Reserve	Retained Earnings	Total
Balance as at 1st January 2008		1,873,238	15,000	375,762	2,264,000
Profit for the year				2,760,746	2,760,746
Dividends	25			(2,350,913)	(2,350,913)
Write back of unclaimed dividends	25.2			4,387	4,387
Balance as at 31st December 2008		1,873,238	15,000	789,982	2,678,220
Profit for the year				4,114,512	4,114,512
Dividends	25			(3,433,644)	(3,433,644)
Write back of unclaimed dividends	25.2			2,136	2,136
Balance as at 31st December 2009		1,873,238	15,000	1,472,986	3,361,224

The above statements of changes in equity is to be read in conjunction with notes to the financial statements on pages 74 to 90.

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 2009 comprise 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 BASIS OF PREPARATION

2.1 STATEMENT OF COMPLIANCE

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

2.2 APPROVAL OF THE FINANCIAL STATEMENTS BY THE DIRECTORS

The financial statements were authorised for issue by the Board of Directors on 28th January 2010

3 BASIS OF MEASUREMENT

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.

3.1 FUNCTIONAL AND REPORTING CURRENCY

The financial statements are presented in Sri Lankan Rupees, rounded to the nearest thousand.

4 USE OF ESTIMATES AND JUDGEMENTS

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

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

Information about significant areas of estimation and uncertainty that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.1 to 4.2.

4.1 ASSESSMENT OF IMPAIRMENT

The Company assesses at each balance sheet date whether there is objective evidence that an asset or portfolio of assets is impaired. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell.

In assessing value in use, the estimated future cash flows are discounted to present value using appropriate discount rates that reflect the current market assessments of the time value of money and risks specific to the asset.

4.2 EMPLOYEE RETIREMENT BENEFITS

The liability as at balance sheet date was actuarially valued based on the assumptions set out in Note 21.3

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.

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 are presently 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 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.

Outreach Projects (Guarantee) Ltd

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

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

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 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 of 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 that 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 derecognised.

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 ½	2 ½
Leasehold building	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	-
Motor Vehicles	25	10
Advertising equipment & agricultural equipment	25	10
Lab equipment	7	10

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

6.4 INTANGIBLE ASSETS

6.4.1 Recognition and measurement

All computer software development and purchase costs incurred by the Company which are not integrally related to associated hardware, and can be, clearly identifiable, reliably measured and it is 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 amortisation 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%

Notes to the Financial Statements

6.5 INVESTMENTS

Investment in subsidiaries

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 operation and wrapping material cost. The value of the work-in-progress consists of only the raw materials in progress. The value of finished goods 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 overdraft.

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 corresponding impairment loss is recognised in the income statement.

LIABILITIES AND PROVISIONS

6.10 DIVIDENDS

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

6.11 EMPLOYEE BENEFITS

6.11.1 Defined benefit plan – Retirement Gratuity

As required by the Sri Lanka Accounting Standards 16 (Revised 2006) - Employee Benefits ("SLAS 16") the Company (the subsidiary does not have employees) applies the actuarial valuation method to contribute for retirement gratuity and has funded by way of an insurance policy for retirement gratuities based on the above method.

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 percent of the defined benefit obligation as at balance sheet date or 10% of fair value of plan assets as at that date, that portion is recognised in income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the gain or loss is not recognised.

6.11.2 Defined contribution plans – Employees' Provident Fund and Employees' Trust Fund

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

6.13.2 Interest Income

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

6.14 EXPENSES

6.14.1 Operating Lease Payments

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

6.14.2 Interest and Other Expenses

Interest payable and other expenses are recognised on 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 TAXATION

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

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

6.15.2 DEFERRED TAXATION

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 for 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 balance sheet date.

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

6.16 SEGMENTAL 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 a part of the operating activities.

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

The Institute of Chartered Accountants of Sri Lanka has issued two standards given below which become effective for annual periods beginning on or after January 2011. Accordingly these standards have not been applied in preparing these consolidated financial statements.

7.1 SLAS 44 – FINANCIAL INSTRUMENTS: PRESENTATION

This standard provides the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities. It applies to the classification of financial instruments from the perspective of the issuer, into financial assets, financial liabilities and equity instruments, and the circumstances in which the financial assets and financial liabilities can be offset.

7.2 SLAS 44 – FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

The standard provides the principles for recognizing and measuring financial assets and financial liabilities. The standard requires certain items currently reported as off balance sheet to be reported in the balance sheet of the companies, and certain financial assets currently reported at cost to be reported at fair value.

The impact of adopting these standards has not yet been quantified by the Company.

Notes to the Financial Statements

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
8	**Net revenue**				
	Local revenue	58,034,943	54,721,072	58,034,943	54,721,072
	Export revenue	44,544	41,981	44,544	41,981
	Gross revenue	58,079,487	54,763,053	58,079,487	54,763,053
	Government levies*				
	- Excise special provision tax	38,681,429	35,783,956	38,681,429	35,783,956
	- Tobacco tax	22,035	32,256	22,035	32,256
	- Social responsibility levy	580,226	536,759	580,226	536,759
	- Value added tax	6,141,337	7,227,322	6,141,337	7,227,322
	- Turnover tax	687	2,957	687	2,957
	- Nation building levy	299,858	-	299,858	-
	Total Government levies	45,725,572	43,583,250	45,725,572	43,583,250
	Net revenue	12,353,915	11,179,803	12,353,915	11,179,803

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

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
9	**Other operating income**				
	Gain on transaction/ translation of foreign currency	84,905	46,694	84,905	46,694
	Profit on disposal of Property, Plant & Equipment	3,943	8,681	3,943	8,681
	Sundry sales	3,768	5,064	3,768	5,064
		92,616	60,439	92,616	60,439

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
10	**Profit before income tax is stated after charging all the expenses including the following:**				
	Depreciation & amortisation expenses	202,479	224,175	202,479	224,138
	Non - Executive Directors' emolument	9,589	9,253	9,589	9,253
	Auditors' remuneration				
	(a) Audit fee & expenses	2,621	2,932	2,621	2,922
	(b) Audit related services fee & expenses	530	626	530	626
	(c) Non audit services	2,297	2,506	2,297	2,506
	Legal fees	4,427	82,186	4,427	82,186
	Administration expenses	479,411	482,505	479,411	482,505
	Donations & CSR activities	120,652	405,763	120,652	405,763
	Technical & Advisory fees	306,748	456,966	306,748	456,966
	Property, Plant & Equipment/Intangible assets write off	44,291	147,980	44,291	147,980
	Provision for obsolete inventories/doubtful debts	28,787	7,234	28,787	7,234
	Employee benefits expenses (note 10.1)	1,235,340	1,018,581	1,235,340	1,018,581
10.1	**Employee benefits Expenses**				
	Executive Directors' emolument	56,504	51,823	56,504	51,823
	Salaries & wages	703,722	672,106	703,722	672,106
	Gratuity insurance premium	227,667	202,799	227,667	202,799
	Provision for Voluntary Separation Scheme	182,543	27,513	182,543	27,513
	Contribution to Employees' Provident Fund	54,003	54,534	54,003	54,534
	Contribution to Employees' Trust Fund	10,901	9,806	10,901	9,806
		1,235,340	1,018,581	1,235,340	1,018,581

	Group		Company	
	2009	2008	2009	2008
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s

11 Net interest income

	2009	2008	2009	2008
Interest income	418,536	453,444	418,536	453,444
Interest expense	(2,183)	(8,651)	(2,183)	(8,651)
	416,353	444,793	416,353	444,793

12 Income tax expense

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

	Group		Company	
	2009	2008	2009	2008
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
Income tax on profit	3,036,195	1,918,000	3,036,195	1,918,000
Origination and reversal of temporary differences (note 22)	(115,821)	(64,008)	(115,821)	(64,008)
Income tax expense	2,920,374	1,853,992	2,920,374	1,853,992

Reconciliation of effective tax rate and the actual tax rate

	%	%	%	%
Actual tax rate	35.00	35.00	35.00	35.00
Depreciation in excess of capital allowances	0.26	0.79	0.26	0.79
Disallowable expenses	8.60	7.56	8.60	7.56
Allowable expenses	(0.44)	(1.30)	(0.44)	(1.30)
Income exempt from income taxes	(0.85)	(1.00)	(0.85)	(1.00)
Deferred tax reversal	(1.65)	(0.49)	(1.65)	(0.49)
Others	0.58	(0.38)	0.58	(0.38)
Effective tax rate	41.50	40.18	41.50	40.18

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	
	2009	2008	2009	2008
Profit attributable to shareholders (Rs. 000)	4,114,612	2,760,709	4,114,512	2,760,746
Weighted average number of ordinary shares	187,323,751	187,323,751	187,323,751	187,323,751
Basic earnings per share (EPS) - Rs.	21.97	14.74	21.96	14.74

Notes to the Financial Statements

	Freehold Land	Freehold Buildings	Building Improve- ments	Leasehold Buildings	Machinery/ Equipment*	Motor Vehicles	2009 Rs.'000s	2008 Rs.'000s
14 Property, Plant & Equipment								
Group								
Cost								
Balance as at 1st January	98,575	351,401	46,699	51,999	2,466,944	96,033	3,111,651	3,411,124
Additions		7,078	6,484		286,441		300,003	135,485
Disposals						(3,576)	(3,576)	(11,075)
Adjustments								(11,093)
Write off		(30,729)	(10,393)	(18,935)	(63,671)	(55)	(123,783)	(412,790)
Balance as at 31st December	98,575	327,750	42,790	33,064	2,689,714	92,402	3,284,295	3,111,651
Depreciation								
Balance as at 1st January		207,593	17,765	49,441	1,425,292	63,116	1,763,207	1,838,883
Charge for the year		5,414	4,867	238	169,810	9,072	189,401	210,281
Disposals						(3,218)	(3,218)	(9,967)
Adjustments								(11,093)
Write off		(8,951)	(6,301)	(18,914)	(46,104)	(50)	(80,320)	(264,897)
Balance as at 31st December		204,056	16,331	30,765	1,548,998	68,920	1,869,070	1,763,207
Net book value before work-in-progress as at 31st December	98,575	123,694	26,459	2,299	1,140,716	23,482	1,415,225	1,348,444
Capital work-in-progress at cost					116,387		116,387	227,724
Carrying amount								
Net book value as at 31st December 2009	98,575	123,694	26,459	2,299	1,257,103	23,482	1,531,612	
Net book value as at 31st December 2008	98,575	143,808	28,934	2,558	1,269,376	32,917		1,576,168

	Freehold Land	Freehold Buildings	Building Improve-ments	Leasehold Buildings	Machinery/ Equipment*	Motor Vehicles	2009 Rs.'000s	2008 Rs.'000s
14 Property, Plant & Equipment (Contd.)								
Company								
Cost								
Balance as at 1st January	98,005	348,666	46,699	51,999	2,466,944	96,033	3,108,346	3,407,819
Additions		7,078	6,484		286,441		300,003	135,485
Disposals						(3,576)	(3,576)	(11,075)
Adjustments	570	2,734					3,304	(11,093)
Write off		(30,729)	(10,393)	(18,935)	(63,671)	(55)	(123,783)	(412,790)
Balance as at 31st December	98,575	327,749	42,790	33,064	2,689,714	92,402	3,284,294	3,108,346
Depreciation								
Balance as at 1st January		204,927	17,765	49,441	1,425,291	63,116	1,760,540	1,836,253
Charge for the year		5,414	4,867	238	169,810	9,072	189,401	210,244
Disposals						(3,218)	(3,218)	(9,967)
Adjustments		2,666					2,666	(11,093)
Write off		(8,951)	(6,301)	(18,914)	(46,104)	(50)	(80,320)	(264,897)
Balance as at 31st December		204,056	16,331	30,765	1,548,997	68,920	1,869,069	1,760,540
Net book value before work-in-progress as at 31st December	98,575	123,694	26,459	2,299	1,140,716	23,482	1,415,225	1,347,806
Capital work-in-progress at cost					116,387		116,387	227,724
Carrying amount								
Net book value as at 31st December 2009	98,575	123,694	26,459	2,299	1,257,103	23,482	1,531,612	
Net book value as at 31st December 2008	98,005	143,739	28,934	2,558	1,269,377	32,917		1,575,530

* 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 a significant impairment.

	Freehold Land	Freehold Buildings	Building Improve-ments	Leasehold Buildings	Machinery/ Equipment*	Motor Vehicles	2009 Rs.'000s	2008 Rs.'000s
Fully depreciated assets which are still in use are as follows								
Cost 2009		121,845		25,740	489,485	52,083	689,152	
Cost 2008		121,327		44,464	239,153			404,944

Notes to the Financial Statements

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
15 Intangible assets				
Cost				
Balance as at 1st January	82,775	83,485	82,775	83,485
Additions	13,410	400	13,410	400
Write Off	(1,479)	(1,110)	(1,479)	(1,110)
Balance as at 31st December	94,706	82,775	94,706	82,775
Amortisation				
Balance as at 1st January	61,896	49,025	61,896	49,025
Charge for the year	13,078	13,894	13,078	13,894
Write Off	(651)	(1,023)	(651)	(1,023)
Balance as at 31st December	74,323	61,896	74,323	61,896
Net book value as at 31st December	20,383	20,879	20,383	20,879

* Intangible assets represent computer software which are not integrally related to associated hardware as explained in note no. 6.4

	Share Holding %	No of Shares	Company 2009 Rs.'000s	Company 2008 Rs.'000s
16 Investments in subsidiaries				
CTC Services Ltd	100	50,000	500	500
CTC Leaf Exports Ltd*	100	6,000,000	-	-
Advent International Ltd.*	100	10,000	-	-
			500	500

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

During the year, CTC Briquettes Ltd and CTC Exports Ltd were liquidated.

17 Receivables

Receivables shown in the balance sheet include the following

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
17.1 Staff loans				
Balance as at 1st January	211,050	206,960	211,050	206,960
Loans granted	80,009	76,441	80,009	76,441
Loans recovered	(65,766)	(72,351)	(65,766)	(72,351)
Balance as at 31st December	225,293	211,050	225,293	211,050
Receivable within one year*	(28,090)	(26,192)	(28,090)	(26,192)
Receivable after one year	197,203	184,858	197,203	184,858

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

Staff loans are disbursed to employees of the Company excluding the Directors. 55 employees have been granted loans during the year (2008 - 57 employees).

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
17.2 Trade & other receivables				
Trade receivables	749,544	819,365	749,544	819,365
Other receivables	123,007	56,986	122,380	55,914
Interest receivables	5,501	12,057	5,501	12,057
Receivables from subsidiary	-	-	2,322	3,105
Advances to farmers	113,576	79,598	113,576	79,598
Provision for doubtful debts (note 17.3)	(65,534)	(11,040)	(65,534)	(11,040)
	926,094	956,966	927,789	958,999
17.3 Provision for doubtful debts				
Balance as at 1st January	11,040	10,254	11,040	10,254
Provision	56,085	786	56,085	786
Write off	(1,591)	-	(1,591)	-
Balance as at 31st December	65,534	11,040	65,534	11,040

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
18 Inventories				
Raw materials	1,258,500	647,652	1,258,500	647,652
Work-in-progress	23,806	23,765	23,806	23,765
Finished goods	815,171	1,721,624	815,171	1,721,624
Consumables	345,240	324,185	345,240	324,185
Provision for obsolete consumables (note 18.1)	(118,165)	(145,463)	(118,165)	(145,463)
	2,324,552	2,571,763	2,324,552	2,571,763
18.1 Provision for obsolete consumables				
Balance as at 1st January	145,463	139,015	145,463	139,015
Provision/(reversal)	(27,298)	6,448	(27,298)	6,448
Balance as at 31st December	118,165	145,463	118,165	145,463

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
19 Cash & cash equivalents				
Cash in hand & bank balances	152,356	33,461	152,044	33,340
Short term investments*	5,613,894	5,342,351	5,613,894	5,342,351
Cash & cash equivalents	5,766,250	5,375,812	5,765,938	5,375,691
Bank overdraft	(20,769)	(38,340)	(20,769)	(38,340)
Cash and cash equivalents in the cash flow statement	5,745,481	5,337,472	5,745,169	5,337,351

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

Notes to the Financial Statements

	Company 2009 Rs.'000s	Company 2008 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)	1,873,238	1,873,238

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

21 Provision for employee benefits

Retiring gratuity is a defined benefit plan- covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs. 5.2 million is not funded and has been provided for in the books of the Company.

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
Balance as at 1st January	6,319	8,143	6,319	8,143
Gratuity paid	(1,110)	(1,824)	(1,110)	(1,824)
Balance as at 31st December	5,209	6,319	5,209	6,319

Subsequent to 1992, the externally funded policy purchased from Eagle Insurance PLC, covers 335 staff attached to the Company.

An actuarial valuation was carried out as at 5th January 2010 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 amounted to Rs. 227.7 million (2008- Rs. 202.8 million)

Results of the actuarial valuation indicate the following:

	Company 2009 Rs.'000s	Company 2008 Rs.'000s
Present value of the scheme assets (note 21.2)	874,488	665,387
Present value of defined benefit obligation (note 21.1)	(874,488)	(626,793)
Surplus	-	38,594

The surplus of 2008 is not recognised in the financial statements as it is within the corridor of 10% in compliance with the accounting policy explained in note 6.11.1

Eagle Insurance Company PLC has confirmed that the insurance policy satisfies the requirements of SLAS 16. The Company is examining the most effective way of satisfying the obligations of the employees' gratuities and should complete the exercise by end 2010. The assets and defined benefit obligation have therefore been netted off in the financial statements.

	Company 2009 Rs.'000s	Company 2008 Rs.'000s
21.1 Movement in scheme assets		
Fair value of plan assets at 1st January	665,388	457,226
Contributions made to the scheme	225,000	200,472
Benefits paid by the scheme	(21,948)	(43,453)
Actuarial gains / (losses)	(63,818)	7,707
Expected return on plan assets	69,866	43,436
Fair value of scheme assets at 31st December	874,488	665,388
The above amount is invested in the Insurance Fund of Eagle Insurance Co. PLC		
21.2 Movement in the present value of defined benefit obligations		
Liability for defined benefit obligations at 1st January	626,793	412,179
Actuarial losses	118,240	165,624
Benefits paid by the plan	(21,948)	(43,453)
Current service costs and interest	151,403	92,443
Liability for defined benefit obligations at 31st December	874,488	626,793
Present value of funded obligation	874,488	626,793
Present value of unfunded obligation	-	-
	874,488	626,793

21.3 Actuarial assumptions

Principal actuarial assumptions at the reporting date,	2009	2008
	%	%
Discount rate at 31st December	9	16
Expected return on plan assets at 1st January	9.5	10.5
Future salary increases	15	20
The overall expected long-term rate of return on assets	9.5	10.5

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 2009 amounted to Rs. 2.1 million (2008 - Rs. 2 million) and other pensioners Rs. 13.1 million (2008 - Rs. 13.6 million).

	Group 2009 Rs.'000s	Group 2008 Rs.'000s	Company 2009 Rs.'000s	Company 2008 Rs.'000s
22 Deferred taxation				
Balance as at 1st January	246,175	310,183	246,175	310,183
Origination and reversal of temporary differences (note 12)	(115,821)	(64,008)	(115,821)	(64,008)
Balance as at 31st December	130,354	246,175	130,354	246,175
Deferred tax liabilities				
Property, Plant & Equipment	223,544	243,672	223,544	243,672
Intangible assets	3,132	4,714	3,132	4,714
	226,676	248,386	226,676	248,386
Deferred tax assets				
Retiring gratuity	(1,823)	(2,211)	(1,823)	(2,211)
Employee compensation	(94,499)	-	(94,499)	-
Net deferred tax liabilities	130,354	246,175	130,354	246,175

Notes to the Financial Statements

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
23	**Trade & other payables**				
	Trade payables	142,759	84,679	142,759	84,679
	Other payables including Government levies	3,182,374	3,168,385	3,182,374	3,168,176
	Accruals	1,407,529	1,957,446	1,407,529	1,957,446
	Payable to Group entities (note 23.1)	169,967	200,560	169,967	200,560
		4,902,629	5,411,070	4,902,629	5,410,861
23.1	**Payable to Group entities**				
	BAT (UK & Export) Ltd	118,712	130,097	118,712	130,097
	BAT Asia Pacific Region Ltd	22,657	38,201	22,657	38,201
	British American Shared Services	24,561	19,775	24,561	19,775
	BAT (Malaysia) Berhad	4,037	12,487	4,037	12,487
		169,967	200,560	169,967	200,560

Also refer note 26 to the financial statements.

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
24	**Current taxation**				
	Balance as at 1st January	1,377,481	883,365	1,377,481	883,365
	Income tax on profit	3,036,195	1,918,000	3,036,195	1,918,000
	Income tax paid	(3,101,152)	(1,423,884)	(3,101,152)	(1,423,884)
	Balance as at 31st December	1,312,524	1,377,481	1,312,524	1,377,481

		Group		Company	
		2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
25	**Dividends payable**				
	Balance as at 1st January	899,154	768,027	899,154	768,027
	Dividends declared (note 25.1)	3,433,644	2,350,913	3,433,644	2,350,913
	Dividends paid	(3,327,064)	(2,212,550)	(3,327,064)	(2,212,550)
	Transfers to unclaimed dividends (note 25.2)	(12,918)	(7,236)	(12,918)	(7,236)
	Balance as at 31st December	992,816	899,154	992,816	899,154

25.1 Dividend declared / paid

2009	2008 Final Paid	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	Total Rs./Rs.000s
Group / Company						
Dividend per share (Rs.)	2.13	2.50	4.00	4.40	5.30	18.33
Dividends to shareholders	359,110	421,615	674,591	742,080	893,870	3,091,266
Tax deducted at source	39,889	46,694	74,704	82,145	98,946	342,378
	398,999	468,309	749,295	824,225	992,816	3,433,644

2008	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	Total Rs./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	34,648	51,878	58,486	89,915	234,927
	346,549	518,887	586,323	899,154	2,350,913

	Group		Company	
	2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
25.2 Unclaimed dividends				
Balance as at 1st January	31,670	28,821	31,670	28,821
Transfers	12,918	7,236	12,918	7,236
Write back	(2,136)	(4,387)	(2,136)	(4,387)
Balance as at 31st December	42,452	31,670	42,452	31,670

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 2009 Rs.'000s	Transaction value 2008 Rs.'000s
BAT Singapore	Export of cigarettes	BAT Group Co.	44,544	41,981
BAT Singapore	Import of cigarettes and leaf	BAT Group Co.	46,249	38,845
BAT International	Import of cigars	BAT Group Co.	1,716	1,744
BAT UK	Technical & Advisory fees	BAT Group Co.	306,748	456,966
ITC Limited	Import of printed materials & leaf	BAT Associate Co.	3,269	8,402
Anspac Services (Pvt) Ltd	Import of printed materials	BAT Group Co.	3,521	-
BAT SAA Services (Pvt) Ltd	Reimbursement of expenses	BAT Group Co.	16,976	-
Pakistan Tobacco Company PLC	Import of machinery and leaf	BAT Group Co.	118,035	5,256
BAT (GLP) Limited	Import of leaf	BAT Group Co.	291,123	-
British American Shared Services (BASS)	Information technology related services	BAT Group Co.	45,392	72,873
BAT Asia Pacific Region Ltd	Reimbursement of expenses	BAT Group Co.	182,591	152,980
BAT (Malaysia) Berhad	Reimbursement of expenses	BAT Group Co.	18,062	16,544

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

Notes to the Financial Statements

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

The Company being the parent of its subsidiaries listed out in note 16, and the Board of Directors of the Company has the authority and responsibility of planning, directing and controlling the activities of the Group. Accordingly, the Board of Directors of the Company has been identified as the key management personnel ("KMP") of the Company and the Group.

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

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

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

26.3 Transactions with other related entities

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

		2009 Rs.'000s	2008 Rs.'000s
J D Bandaranayake			
- Sampath Bank PLC	Provision of banking services	27	205
- Hayleys PLC	Provision of industrial, agro and consumer products	4,605	6,821
V P Malalasekara			
- Brown & Co PLC	Purchase of office equipment	1,055	15
S Ratnayake and Desamanya P.D. Rodrigo (in capacity as a Director of John Keells Holdings PLC)			
- John Keells Computer Services (Pvt) limited	Purchase of computer equipment	8,739	7,556
- DHL Keells (Pvt) Limited	Provision of courier services	5,196	7,051
- Jaykay Marketing Services Limited	Provision of marketing services	17,601	18,597
- Ceylon Holiday Resorts Limited	Provision of leisure services	-	2,094
- Habarana Lodge	Provision of leisure services	242	421
- Habarana Walk Inn	Provision of leisure services	79	196
- Trinco Walk Inn Limited	Provision of leisure services	168	-
- Kandy Walk Inn	Provision of leisure services	58	300
- Asian Hotels & Properties PLC	Provision of leisure services	-	602
- Cinnamon Lakeside Colombo	Provision of leisure services	4,981	6,056
- Cinnamon Hotels & Resorts (Pvt) Limited	Provision of leisure services	5,029	5,892
- Mackinnons American Express Travel Limited	Management of Air Travel	19,653	45,279
Mobasher Raza			
- Pakistan Tobacco Company PLC	Purchase of machinery and leaf	118,035	5,256

Also refer note 23.1 to the financial statements.

27 Employee share option scheme

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

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

28 Commitments

Capital commitments

There were no capital commitments contracted but not provided for in the financial statements of the Company or in the Group accounts as at 31st December 2009. (2008 - Nil)

Other commitments

The letters of credit, negotiated by the Company as at 31st December 2009 - Rs. 46.7 million (2008 - 230.9 million).

29 Contingent liabilities

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

Guarantees issued to Commissioner General of Excise in lieu of obtaining certificate of registration in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 Rs. 500 million (2008 - nil)

Guarantees issued to Director-General of Customs in lieu of custom duty payable on clearing consignments Rs. 51.5 million (2008 Rs. 26.3 million)

Guarantees issued to Dynacom Engineering (Pvt) Ltd for the safety of trunking mobile units Rs. 0.1 million (2008 Rs. 0.3 million)

Outstanding litigation

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

30 Operating leases

Cancelable operating lease rental payables are as follows:

	2009 Rs.'000s	2008 Rs.'000s
Less than one year	70,818	26,419
Between one and five years	113,010	77,445
More than five years	3,194	23,340

31 Employee numbers

The total number of permanent employees of the Group as at 31st December 2009 amounted to 298 (2008 - 308)

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	
	2009 Rs.'000s	2008 Rs.'000s	2009 Rs.'000s	2008 Rs.'000s
Geographical analysis of gross revenue				
Sri Lanka	58,034,943	54,721,072	58,034,943	54,721,072
Maldives	44,544	41,981	44,544	41,981
	58,079,487	54,763,053	58,079,487	54,763,053

Notes to the Financial Statements

	Group		Company	
	2009	2008	2009	2008
	Rs.'000s	Rs.'000s	Rs.'000s	Rs.'000s
Geographical analysis of net results (Profit after tax)				
Sri Lanka	4,108,077	2,751,273	4,107,977	2,751,310
Maldives	6,535	9,436	6,535	9,436
	4,114,612	2,760,709	4,114,512	2,760,746

33 Post balance sheet events

There were no material events occurring after the balance sheet date as at 31st December 2009 that require adjustments or disclosure in the financial statements except for the following:

Proposed dividends

The Board of Directors has recommended a final dividend of Rs. 5.70 per share amounting to Rs. 1,068 million (less tax of approximately 106 million) for the year ended 31st December 2009. This is to be approved at the Annual General Meeting to be held on 19th March 2010. Once approved by the shareholders, the final dividend will be paid on 31st March 2010. In accordance with Sri Lanka Accounting Standard No.12 (Revised) "Events After the Balance Sheet Date", this proposed final dividend has not been recognised as a liability as at 31st December 2009.

As Required by section 56 of the Companies Act No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with section 57 prior to recommending the final dividend, a statement of solvency completed and duly signed by the Board of Directors on 28th January 2010 has been audited by M/S KPMG Ford Rhodes Thornton & Co.

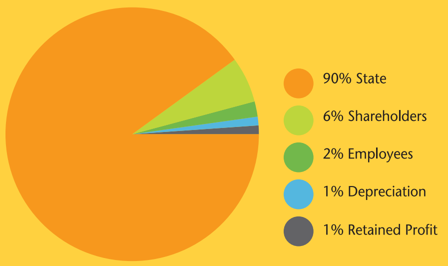
34 Directors responsibility

The Directors acknowledge responsibility for the preparation and presentation of the financial statements.
The Statement of Directors' responsibility is in page 64 of this annual report.

Statement of Value Added

	2009 Rs. '000s	2008 Rs. '000s
Gross revenue	58,079,487	54,763,053
Supplied materials & services	(3,689,922)	(5,651,427)
Net interest income	416,353	444,793
Other operating income	92,616	60,439
	54,898,534	49,616,858
State	49,346,103	45,613,393
Shareholders	3,433,644	2,350,913
Employees	1,235,340	1,018,581
Depreciation	202,479	224,175
Retained Profit	680,968	409,796
	54,898,534	49,616,858

2009



Shareholder Information

Ordinary shareholding

Stated Capital - Rs.	1,873,237,510	
Number of shares representing the entity's stated capital	187,323,751	
No of Shareholders as at 31 December 2009	4,037	(2008 - 4,118)

Categorisation of shareholding

Shareholding range	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
1 - 1000	2,555	675,117	0.36	31	9,305	0.00	2,586	684,422	0.37
1001 - 10,000	1,256	3,604,035	1.92	41	180,296	0.10	1,297	3,784,331	2.02
10,001 - 100,000	110	2,486,329	1.33	23	795,101	0.42	133	3,281,430	1.75
100,001 - 1,000,000	12	2,757,027	1.47	6	2,092,400	1.12	18	4,849,427	2.59
Over 1,000,000	-	-	-	3	174,724,141	93.27	3	174,724,141	93.27
Total	3,933	9,522,508	5.08	104	177,801,243	94.92	4,037	187,323,751	100.00

Computation of percentage (%) of public shareholding

	31-Dec-09 No of shares	31-Dec-08 No of shares
Parent Company		
British American Tobacco Holding (SL) BV	157,590,931	157,590,931
	157,590,931	157,590,931
Directors shareholding (including spouses & children)		
J.D. Bandaranayake	178,335	157,035
V.P. Malalasekera	7,564	7,564
S.C. Ratnayake	410	410
	186,309	165,009
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors shareholding (including spouses & children)	186,309	165,009
Public Holding	29,546,511	29,567,811
	187,323,751	187,323,751
Public Holding as a % of issued number of shares	15.77	15.78

Institutional and individual shareholders

	No of Shares	%	No of Shareholders	%
Individuals	8,714,261	4.65	3,853	95.44
Institutions	178,609,490	95.35	184	4.56
	187,323,751	100.00	4,037	100.00

CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

Year	2009	2008
No of share transactions for the year	2,214	1,830
No of shares traded	3,957,800	3,724,900
Price movements Rs.		
Highest	193.00	80.00
Lowest	69.00	53.00
Closing price	185.00	66.00
Market capitalisation (Rs. million)*	34,655	12,363

* Closing price multiplied by issued number of shares.

Major shareholders

20 Largest shareholders as at 31st December 2009.

	2009		2008	
Name	No of Shares	%	No of Shares	%
British American Tobacco Holdings (Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
FTR Holdings SA	15,585,910	8.32	15,585,910	8.32
Pershing LLL SA Averbach Grauson & Co.	1,547,300	0.83	-	-
Belmont Agents Limited	1,000,000	0.53	1,000,000	0.53
Deutsche Bank AG-National Equity Fund	500,000	0.27	-	-
Mr Yonmerrannage Simon Hewage Indra Kumar Silva	362,200	0.19	703,900	0.38
Mr.Channa Nalin Rajamoney	325,500	0.17	-	-
Mrs Jasbinderjit Kaur Piara Singh	290,600	0.16	250,600	0.13
Eagle Insurance Company PLC. A/C NO.3	260,000	0.14	325,000	0.17
The Ceylon Chamber of Commerce A/C NO. 2	252,300	0.13	-	-
Miss Neesha Harnam	252,300	0.13	248,100	0.13
Harnam Holdings SDN BHD	203,900	0.11	203,900	0.11
HSBC INTL NOM Ltd - SSBT-DEU	195,600	0.10	195,600	0.10
Mr William Ryan Herbert Perera	180,440	0.10	180,440	0.10
COCO Lanka PLC	170,000	0.09	-	-
Mr. Duleep Fairlie George Dalpethado	164,676	0.09	198,259	0.11
Eagle Insurance Company PLC. A/C NO.7	152,700	0.08	-	-
HSBC INTL NOM Ltd -UBS AG	150,000	0.08	150,000	0.08
Mr Jayampathi Divale Bandaranayake	144,244	0.08	122,944	0.07
DFCC Bank A/C NO.1	136,467	0.07	-	-
Sub Total	179,465,068	95.80	176,755,584	94.36
Balance held by 4,017 share holders (2008-4,085 shareholders)	7,858,683	4.20	10,568,167	5.64
Total Shares	187,323,751	100.00	187,323,751	100.00

Property Portfolio of the Company

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

The Company is following the cost model as its accounting policy to measure the property plant and equipment after recognition. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs. 2,365,725,000.

Property		Extent of Land		
Asset Type	Location	A	R	P
Land and Buildings	Colombo Head Office and factory	7	2	22.15
Land and Buildings	Kandy Office and factory	7	2	5.99
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50
Land and Buildings	Nildandahinna depot, stores and quarters	2	1	4.00
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25
Land and Buildings	Ambale depot, stores and quarters	2	-	9.66
Land and Buildings	Wendaruwa quarters	-	2	-
Land and Buildings	Galewela depot, stores and quarters	5	2	25.00
Land and Buildings	Hunnasgiriya quarters	-	2	-
Land and buildings	Kebitigollewa	3	-	-
Land and buildings	Walapane	2	-	3.00
Land and buildings	Nuwara'eliya	-	1	31.30
Land	Warana	25	-	24.00
Land	Kalagedihena	1	2	22.00
Land	Naula	-	-	21.00

Notice of Meeting

NOTICE IS HEREBY given that the Seventy Ninth 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 Friday, 19 March 2010 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 2009 and the Independent Auditors' Report thereon.

(ii) To declare a Dividend

(iii) To re-elect Directors.

(iv) To re-elect Ariyaratne Hewage, who is over 65 years of age as a Director of the Company in accordance with the Notice received from a Shareholder of the Company and which is set out at the end of this Notice. (refer 'A')

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

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

By Order of the Board

Dinesh Dharmadasa
COMPANY SECRETARY

28 January 2010

(A) A notice was received by the Company on 15 January 2010 from a Shareholder of the Company giving Notice of intention to move the following as an Ordinary Resolution in the forthcoming Annual General Meeting of the Company with regard to re-election of Ariyaratne Hewage, who retires at the conclusion of the Annual General Meeting.

"RESOLVED that Ariyaratne Hewage (who attained the age of 65 years on 9th November 2009) be and is hereby re-elected a Director of the Company and it is further specifically declared that the age limit of 65 years referred to in Article 86(2) of the Company's Articles of Association shall not apply to the said Ariyaratne Hewage."

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.

Notes

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 Friday, 19th March 2010 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 2009.		
(ii)	To declare a Final Dividend		
(iii)	To re-elect Mobasher Raza who comes up for retirement by rotation.		
(iv)	To re-elect Susantha Ratnayake who comes up for retirement by rotation		
(v)	To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association.		
(vi)	To authorise the Directors to determine and make donations.		
(vii)	To re-appoint the Auditors and authorise the Directors to determine their remuneration.		

....

Signature

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

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

Form of Proxy

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 17 March 2010.

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 Leaf Exports Limited
CTC Services Limited

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

Designed & Produced by eMAGEWISE® (Pvt) Ltd
Photography by Taprobane Street & Studio Times
Digital Plates by Imageline (Pvt) Ltd
Printed by Ace Printing & Packaging (Pvt) Ltd

178 Srimath Ramanathan Mawatha Colombo 15 Sri Lanka