



much  
to say



**CEYLON TOBACCO  
COMPANY**

A member of the British American Tobacco Group

ANNUAL REPORT 2010



much  
to say



We are a high value company.  
In size, in promise, in potential, we  
have much to say and more to do.

As a corporate with over a  
hundred year history in Sri Lanka,  
our responsibility  
towards people, company,  
environment and country is greater  
than most. We spare no effort to  
live up to this challenge.

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# financial highlights

	2010 Rs. Mn.	2009 Rs. Mn.
Gross Revenue (Including VAT)	63,524	58,079
Government Levies	49,902	45,726
Net Revenue	13,622	12,354
Profit before Tax	8,197	7,035
Profit after Tax	5,097	4,115
Net Assets	3,654	3,359
Interim Dividends	3,737	3,035
Proposed final dividends (to be approved at the Annual General Meeting)	1,352	1,068
Total Value Added	59,474	54,899
Investments	191	313
Market Capitalisation	66,500	34,655
Value Added per Employee	209	184
Group Employment (nos)	284	298
<b>Per Share (Rs.)</b>		
Market Value	355.00	185.00
Net Assets	19.51	17.93
Earnings	27.21	21.97
Dividends (Interim and proposed Final Dividend)	27.17	21.90

# Vision

## To be the Inspiration for Corporate Excellence in Sri Lanka

### Values



#### Open Mindedness

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

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



#### Strength from Diversity

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

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



## Freedom Through Responsibility

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

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



## Enterprising Spirit

We strive to do different things in different ways.

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

# milestones

1906  
BAT opened its  
first branch in  
Colombo

1927  
BAT opened its first  
factory in Colombo

1932  
CTC incorporated  
in Sri Lanka

1948  
Launch of Bristol cigarettes

1952  
Tobacco cultivation by CTC  
launched in Sri Lanka

1954  
CTC listed as a Public  
Limited Liability Company

1965  
Launch of John Player's Gold Leaf cigarettes

1981  
Formation of the Board Audit Committee

1994  
Head Office and Factory merged into one site in Colombo

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

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

1997  
WorldAware Award for Sloping Agriculture Land Technology (SALT)



1998

National Quality Award, 'Business Today' Top Ten Company

1999

MRP II Class 'A' Award version 4 of Oliver Wight Checklist, '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

2002

First Social Report in Sri Lanka published by CTC, '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

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

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

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

2007

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

2008

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

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

2010

Introduced of a new modern look with the same great taste for JPGL, Launched Dunhill 12's pack, Business Today Top Twenty (placed 4th), LMD 50 most Respected Corporates (among the Top 20), Highest ever Productivity Gains Cigarette Per Man Hour (CPMH) - 18,078



# chairman's statement



As we close this financial year, it gives me great pleasure to present to you the Annual Report and the audited financial statements of Ceylon Tobacco Company for the year 2010. As before, I am confident that our shareholders will be pleased with the performance of the Company during this financial year.

This year has in essence, been a year of great optimism for our nation. The expectations of the Company were no different. With a full calendar year, following the ending of the prolonged conflict, the nation has

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embraced the concepts of peace and unity; undertaken to integrate, envision and implement initiatives that will place Sri Lanka on a firm path to accelerated economic and social progress. From a commercial perspective for CTC, the year has been one that is definitive in shaping the marketing context; with the re-opening of the North and East, the difficulties encountered in operating therein have now been fully removed. Yet, 2010 was in no way a year in which commercial activity thrived with ease. It was, as in the past, a year in which meticulous planning and effective execution of plans produced the results that are being placed before you.

#### **Inspiring Corporate Excellence**

At CTC, continuous improvement has been a continuing theme. This accomplishment can be

credited to foresight, discipline and anticipatory action. In the year under review, your Company once again demonstrated excellence, which has resulted in improving financial performance. As a corporate contributing high revenue to the nation, our responsibility towards people, environment and country is taken with humility and sensitivity. As your Chairman, I take great pride in the fact that your Company strives, on a daily basis, to raise the bar of corporate excellence not only for its own sake but to inspire all institutions to similar ends.

Productivity, Responsibility and People Development have been the platforms in the pursuit of excellence and it is these pillars that have driven CTC to achieve continuous growth. CTC's strategic focus has been and continues to be on the improvement of its competitiveness by addressing all of its cost bases with a view to drive

productivity to consistently higher levels. Consequently, your Company's productivity indices, have improved to internationally recognized levels of high performance. This achievement is particularly noteworthy in the context of market size. This enlightened approach to productivity improvement has been the fulcrum towards CTC's journey to accomplishment.

This recipe for success needs to be communicated and shared, as I believe it can benefit most

change for the nation to maximise the peace dividend.

### Economic Outlook

In the year 2010, Sri Lanka's economy visibly demonstrated a consolidation, reflecting the nations' economic capabilities and potential. Gross official reserves surpassed USD 7 billion in October 2010, the highest ever recorded reserves. All other fundamental indicators have reflected promise.

Against this background, CTC's contribution to state revenue in 2010 grew by Rs. 3.7 billion to an overall contribution of Rs. 56 billion, an increase of 7.0 percent

establishments in this country. I stress this point because I feel that CTC's emphasis on corporate excellence has encouraged and stimulated our peers in Sri Lanka's corporate world. It is our responsibility to continue to inspire corporate Sri Lanka to stretch and optimise its resources, capabilities and practices to be on par with global benchmarks, especially in light of the opportunities that await the nation post-conflict. Through knowledge-share and transfer of best practices amongst the corporate community, I am confident that Sri Lanka can and will achieve the required

Inflation dropped to 5.5 percent YOY from 2009 resulting in a further reduction of interest rates. The national economy fully recovered from a low growth of 1.9 percent in the first half of 2009 to 8.0 percent over the same period in 2010. The Colombo Stock Exchange continued to perform exceptionally in 2010 with the All Share Price Index of the Colombo Stock Exchange (CSE) crossing the 7,000 level for the first time in October 2010.

From a social perspective, the varied initiatives undertaken in the past by the Government of

Sri Lanka have yielded results in reducing poverty to a reported 7.6 per cent from 15.2 percent over the period 2005-2010. Further, the unemployment rate in the country has dropped to 5.3 percent in the year under review.

In the coming years the development of the Northern and Eastern provinces will continue to act as the catalyst for further accelerated economic growth. The complete integration of the north and east to the mainstream economy will open approximately two thirds of the nation's maritime and coastal resources, one third of untapped fertile land for productive use and enable approximately fifteen percent of the country's population to fully participate in the rejuvenated economic activity in the country.

### Revenue to the State

The positive sentiments arising from the progressive economic and infrastructure developments visibly impacted your Company in the year under review. The peace dividend enabled the Company to access markets which were hereto restricted. Enhanced distribution and the ability to meet the needs of the consumer were key to generating higher revenues for the State during the year. In addition, CTC continued to pursue a host of strategies from systems and efficiency reviews to proactive productivity enhancements aimed at curtailing costs.

CTC's contribution to state revenue in 2010 grew by Rs. 3.7 billion to an overall contribution of Rs. 56 billion, an increase of 7.0 percent. Whilst CTC has continued to be a key source of revenue to the Government of Sri Lanka, in the year under review its contribution to the national exchequer represents 8.0 percent of the country's total tax revenue, approximately 1.1 percent of the GDP.

Going forward, CTC expects this positive market outlook to persist in tandem with the momentum of economic activity from the resurgence of such

sectors as tourism and agriculture initially and more sectors thereafter.

### Regulation & Enforcement

The National Authority on Tobacco and Alcohol (NATA) Act has now been in force for a few years, and with maturity we look forward to consistent interpretation of the regulation which has in the past posed a challenge to the consumers and the trade alike. It is imperative that the authorities enforce regulations with fairness and sensitivity to ensure that consumers as well as trade are not penalised outside the framework set by the NATA Act. CTC continues to call for a more participatory approach to policy formulation and implementation; adopted through dialogue, awareness building and stakeholder engagement.

The Authorities must be commended for their vigilance which was demonstrated in the year under review in restraining the growth of the illicit market. Through these actions they have safeguarded the interests of the consumer in checking the flow of counterfeit products whilst ensuring the protection of State revenue.

### Responsibility to our communities

Your Company continues to address broader social needs, as a responsible corporate citizen. The Company has consistently and substantially invested in social and economic advancement of rural communities. From the construction of 202 houses in the Northern, Eastern and Southern provinces in the aftermath of the 2004 Tsunami, the focus shifted to assisting in the acceleration of the re-establishment of civil administration in the Northern Province. The construction of modern Police Stations in Killinochchi and Mankulam, was completed in December 2010 and was dedicated to the people of the area by the Hon. Prime Minister in December 2010. The Sustainable Agriculture Development Program (SADP) with a focus on poverty alleviation and impacting on the

lives of 9000 families island wide has continued into its sixth year of operation in 12 districts.

The Outreach Projects (Guarantee) Limited was established in 2009 to manage and operate the various social responsibility initiatives of CTC. In 2010, under the aegis this company, responsibility initiatives were enhanced to reach a wider range of stakeholders with emphasis on reconstruction and rehabilitation efforts in the Northern and Eastern provinces. The extension of SADP to rehabilitate and impart livelihood skills in agriculture to ex-combatants and on the invitation of the Sri Lankan Army was a noteworthy contribution undertaken by your Company in 2010.

### **Governance as a foundation for corporate success**

Governance lays the foundation to sound corporate management. CTC adopts an enterprise-wide set of systems and processes aimed at fostering greater transparency and a proactive stance towards risk and control. Business continuity at CTC is dependent on the adoption of a sound risk management framework and governance procedures that effectively provide assurance over strategy delivery, implementation of plans and change management initiatives. The establishment of global best practices in the area of governance and risk management has been pivotal to the success of the Company.

### **Recognition and accolades**

Our shareholders will be pleased to note that in 2010 CTC remained at the forefront garnering recognition for its corporate practices and overall performance not only in Sri Lanka but within the global British American Tobacco group's network.

Ceylon Tobacco Company was placed fourth among the Business Today top twenty business entities and was also included into the LMD 50 most respected companies.

The Environment Health and Safety efforts of the Company received Global British American Tobacco recognition.

### **Dividends and share value**

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

4 interim dividends totaling Rs. 19.95 per share were paid and a final dividend of Rs. 7.22 per share has been recommended for the year 2010. CTC continued to perform exceptionally at the Colombo Stock Exchange in terms of yield on share price. At the end of the fiscal year market capitalisation for CTC stood at Rs. 64.5 billion. During the year the Company's share price moved upwards to reach a high of Rs. 399.90, a result of commendable returns and as well as exceptional market buoyancy.

### **In conclusion**

I believe that CTC's foundation for success is its formidable team effort. Their willingness to give to your Company unconditionally, their perseverance to succeed despite the odds, their commitment to excel beyond the norm were the key elements in CTC's continued success both at the marketplace and as a leader in corporate excellence. I would like to thank the team for their commitment and perseverance and for always looking beyond the obvious to excel.

To my colleagues on the Board, I thank them for their support, guidance and valuable contribution in all Board deliberations. I wish to express my appreciation and thanks to the management team which was ably led by the CEO Mustanser Ali Khan for yet another year of commendable performance. Mustanser left your Company at the end of the year to take on wider responsibilities for operations in the British American Group. Mustanser added tremendously to enhancing the



spirit of the Company and maintaining the high values and goals that the Company has stood for over many years. On your behalf I wish to convey our appreciation and wish him the very best in his new role and all his future undertakings.

Similarly, it is my pleasure to welcome James Yamanaka who assumed duties as the new CEO and Managing Director of your company. James brings with him industry experience with numerous senior assignments he has undertaken in the British American Tobacco Group, particularly in the Asia Pacific region.

As we move into a new financial year, it is imperative that we stay focused and responsive to the challenges ahead. Let us move forward with conviction to stay committed to the achievement of CTC's corporate vision "to be the inspiration for corporate excellence in Sri Lanka".



**Jayampathi Bandaranayake**  
Chairman

31st January 2011

# chief executive officer's statement

## **"Much to say" in a definitive year**

As the 2010 financial reporting year draws to a close, our shareholders will be pleased to note that the financial year under review was characterised by exceptional performance in every aspect of our business. It was a year where we at CTC made great strides towards achieving corporate excellence, delivering enhanced value for our shareholders, employees, and stakeholders.

2010 was a defining year for corporate Sri Lanka and the nation as a whole, with the country experiencing its first full year of peace in 30 years. During the year, the nation jump started its post-conflict reconstruction and rehabilitation initiatives while commercial enterprises looked to seize the opportunities arising from peace. I am proud to note that the Company performed exceptionally well in this improved environment, reaping the benefits of increased access to markets, improved stability across the country, and a stronger economy, while also continuing its longstanding efforts to achieve corporate excellence.

CTC's performance in 2010 showed the Company's ability to continually change and adapt

over time to developing situations. Throughout its 100 years of history, we at CTC have embraced change as a lead catalyst to business growth, consistently improving our systems and processes, our people, our relationships and even our product portfolio.

## **Performance adds value to stakeholder and national priorities**

In 2010, CTC delivered strong financial returns to our shareholders and continued to support the nation's development priorities by substantially increasing our contribution to the State. In the year under review, CTC delivered a record pre-tax profit of Rs. 8197 million while contributing Rs. 56 billion to the Government Exchequer. After tax, CTC posted an improved profit of Rs. 5097 million, which has allowed us to enhance shareholder returns with a dividend payout of Rs. 27.17 per share.

CTC's contribution to the State in 2010 was the highest in the Company's history, a significant achievement in light of the Government's need for enhanced resources for reconstruction and





...building on over  
100 years of  
admirable corporate  
performance, CTC  
has over the years  
embraced change  
as a lead catalyst to  
business growth...

rehabilitation. We are pleased that CTC's performance during the year added value to our shareholders and stakeholders whilst also enabling the Company to support the development goals of the nation through our financial contributions.

### **Improving market conditions and a value-driven strategy drive growth**

In 2010, CTC performance clearly benefited from the marked improvement of the economic climate in the country and the Government's sustained law enforcement efforts on curtailment of illicit cigarettes. At the same time, CTC followed a strategy aimed clearly at value enhancement for our consumers during the year, recognising that volumes alone cannot sustain growth.

From a product portfolio perspective, the Company delivered increased value to our consumers by investing in the revitalisation of our core offer, John Player's Gold Leaf (JPGL) as well as supporting the premium Global Drive Brand Dunhill. Despite its long-standing history in the market, JPGL had experienced a decline over the past five years. However, in 2010 our investments in the brand - which included an image makeover and a pack upgrade - helped to stem this decline and returned growth to the brand. Our investments in the Dunhill offer, including improvements in the blend and the introduction of the 12's pack, significantly improved the consumer acceptability of Dunhill and enhanced the brand's position in the marketplace.

### **Progressive productivity enhancements**

The Company also made clear progress in increasing value through the implementation of several productivity initiatives during 2010. The initiatives focused on optimising costs and improving productivity across all parts of the business, from our factory and leaf operations to our head office. Operational productivity enhancement programs, I am proud to say, were conducted in a manner that is true to CTC's spirit, with a humane approach that characterises the Company's management style. I strongly believe that the initiatives introduced to enhance

productivity at CTC during this financial year will continue to be a key enabler of corporate growth in the years ahead. Certainly, all of us at CTC are proud of our efforts and the achievements in 2010

### **Responsible corporate stewardship**

Responsibility has always been a key strategic pillar of CTC's value focused strategy and remains a core element of the Company's DNA. It is an approach that is not just a slogan but a Company culture that permeates throughout the entire organisation. It is not merely delegated to a team or individuals in the organisation, but is instead "lived" by each member of the CTC family.

In 2010, we continued to invest into strategic CSR initiatives, including our six year old flagship project, SADP (Sustainable Agriculture Development Program). The program - which focuses on empowering rural families to reach economic self sufficiency through agricultural and commercial knowledge sharing - was expanded in 2010 and now assists more than 9000 families in almost all regions of the country. During the year under review, SADP Plus - an enhanced version of the original program - was developed to assist participants to cultivate cash crops in larger plots of land in addition to home gardening. Finally, under the auspices of Outreach Projects (Guarantee) Limited, SADP Lite was launched in 2010 to assist 1000 rehabilitated militants to reach self sufficiency at the request of the Ministry of Rehabilitation and Prison Reforms. Through these programs, CTC has been among the first Corporates in Sri Lanka to facilitate and assist families in the Northern and Eastern provinces in a manner that goes beyond mere philanthropy.

### **Beyond workplace to family orientation**

Our team - the CTC family - continues to be the driver of the success of this Company. CTC is endowed with a team that brims with unbridled passion, the spirit of innovation and thirst for excellence and they form the base for CTC as a winning organisation. It is no surprise that our employees continue to win global recognition in the BAT world and that CTC continued to be a

source of talent export to BAT. In 2010, 5 CTC team members were seconded to the larger BAT global network, in recognition of their outstanding contribution to the Company. We are more than pleased that they are able to contribute to the operations in Indonesia, Singapore, Hong Kong, Australasia and a range of South and South East Asian countries. Meanwhile, during the year, we continued to focus our energies on living true to CTC's century old spirit of being one family with high commitment towards employee development.

### Appreciation

Let me take this opportunity to extend my warm appreciation to the Chairman and the Board of Directors for their guidance and foresight, and for their consistent support towards making CTC an organisation of excellence.

Thanks are also clearly due to CTC's former CEO Mustanser Ali Khan, who has very ably led the organisation over the past 3 years, and who deserves the plaudits for the excellent results delivered by the organisation. On behalf of the CTC family, I would like to personally thank Mustanser for steering the Company towards further stability and success, and for leaving behind a Company that is very well positioned for future success and value creation. Thank you and our best wishes to you Mustanser as you embark on another journey towards excellence in your new role as the Supply Chain Director for the South Asia Area of British American Tobacco.

Finally, thanks are also due to my fellow EXCO members, who seized the moment and worked with strategic vision and diligence to meet our corporate objectives for this financial year. Let me formally welcome to the CTC Board and ExCo Atif Hasan Director of Finance; and to the ExCo Surani Amerasinghe, Director of Human Resources, and S.M. Khaled, Director of Supply Chain.

### Looking to the future

I believe that CTC's evolution over the past few years is indicative of a company that is future orientated and ready for the challenges to come, but also of a company that remains appreciative of its past and keenly aware of its role in Sri Lankan society. As a corporate that delivers high returns to the State, we are more than aware of our responsibility towards people, the Company, the development goals of the nation and of course the environment in which we live.

Looking forward, we will continue to strive to meet the future expectations of our shareholders and stakeholders and will spare no effort in living up to these expectations. We remain committed to our vision to be the inspiration for Corporate Excellence in Sri Lanka and look forward to the future.



**James Yamanaka**  
Chief Executive Officer

31st January 2011

# board of directors



From left to right

*Seated*

**08. Ariyaratne Hewage** MPA B.Ed

**02. James Yamanaka** BA, MSc in Foreign Service, MBA / Chief Executive Officer

**01. Jayampathi Bandaranayake** LLB, FCIS, FIPM / Chairman

**04. Vijaya Malalasekera** MA(Cantab), Barrister-at-Law (Inner Temple), Attorney-at-Law

*Standing*

**07. Mobasher Raza** M.Com

**06. Susantha Ratnayake**

**03. Atif Hasan** B.E, MBA / Finance Director

**05. Desamanya Deva Rodrigo** FCA



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A member of the Board of Directors of the company since March 1990. Since his retirement from executive office in July 2007 Jayampathi Bandaranayake has held office as a Non Executive Director of the company and was appointed as Chairman in March 2008. His other Directorships include Sampath Bank PLC, Finlays PLC, Hayleys PLC and Hotel Services Lanka Ltd. He also serves on the Board of BOI Sri Lanka as Chairman/Director General. He is a past Chairman of the Employers Federation of Ceylon and the Ceylon Chamber of Commerce.

James Yamanaka was appointed to the Board of Directors of CTC in January 2011 as Chief Executive Officer/Managing Director. He has worked for British American Tobacco (BAT) since July 2006 and held various key positions such as Regional Strategy and Program Manager, the Regional Manager and the Regional Brand Manager in Asia-Pacific Area, the Head of Strategy and Planning in BAT Germany and Enterprise Program Manager in BAT U.K. James holds a MSc in Foreign Service from Georgetown University (USA) and an MBA from London Business School, as well as a BA from the University of California. Prior to joining BAT, James was a London-based strategy consultant, working primarily on projects in the mobile telecoms industry in Europe and Asia.

Atif Hasan has been with British American Tobacco Group for the last fourteen years. He was appointed to the Board of Directors of CTC in August 2010. He joined Pakistan Tobacco Company (PTC) as a Management trainee in 1996. Atif holds an MBA in Finance from Lahore University of Management Sciences (LUMS) and also is a Chemical Engineer from Bosphorus University, Istanbul Turkey. Prior to his appointment in Ceylon Tobacco Company PLC as Finance Director, Atif was the Finance Controller for PTC. He has held various key senior positions in Finance within the company before that, including a stint in the Regional European Treasury as Senior Treasury Advisor based in Hamburg, Germany.

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

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

The Chairman of John Keells Holdings PLC Susantha Ratnayake 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. He is also the Chairman of the Sri Lanka Tea Board. He was appointed to the Board of Directors of CTC in October 2006.

Mobasher Raza was appointed to the Board of Directors of CTC in November 2007 as a Non Executive Director. He has been with the British American Tobacco Group for the last 31 years. He held various key positions in the Finance function and that include Internal Auditor for British American Tobacco UK, Finance Director Nigerian Tobacco Company Limited and Head of Finance Tvornica Duhana Zadar (British American Tobacco subsidiary in Croatia) and Finance Director in Pakistan Tobacco Company Ltd (PTC) in November 2006, he was appointed as Deputy Managing Director of PTC In addition to his role as Finance Director.

Ariyaratne Hewage 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 Humphrey Fellowship by the US Government to pursue higher studies. He was appointed to the Board of Directors in April 2008 as a Non Executive Director.





# the executive committee



**From left to right**

**Dinesh Dharmadasa**

Corporate & Regulatory Affairs Director

**S. M. Khaled**

Supply Chain Director

**James Yamanaka**

Chief Executive Officer

**Surani Amarasinghe**

Human Resources Director

**Aynul Kabir**

Legal Director

**Rajiv Meewakkala**

Marketing Director

**Atif Hasan**

Finance Director



# our business



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





Our Marketing activities are in full compliance with the National Authority on Tobacco & Alcohol act of 2006, whilst carrying out our activities in line with the British American Tobacco International Marketing Standards.

## Growth



We are focusing on smarter use of our global resources to increase profits and generate funds for reinvesting in our business. We aim to establish a lower cost base throughout our supply chain while improving the quality of our products and their speed to market, as well as our effectiveness in deploying our people and capital.

## Productivity



We are committed to the principles of sustainable development - development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.

Our statement of business principles forms the basis on which we expect our business to run in terms of responsibility.

## Responsibility



To deliver our vision, we know we must also have the right people and the right working environment. We want to continue attracting, developing and retaining high-caliber people who can build the future of our global enterprise. We aim to foster an open, confident culture that encourages change and innovation, inspires our people to perform to their best ability, and rewards success.

## Winning Organisation



Growth  
Management Discussion & Analysis

# much to do



## Supporting the value growth business model

The overall strategic intent of CTC is value growth. Aligned to this strategic imperative the CTC brand portfolio is focused on driving Dunhill and JPGL supported by an effective and efficient trade marketing and distribution model. The resource distribution reflects this alignment, with Dunhill driving premium growth whilst JPGL protects and grows the high segment of the market.

## Market opportunities and challenges

2010 was the first full year subsequent to the end of the ethnic conflict in the country which had protracted for over 30 years, stifling economic and commercial activity in the Northern and Eastern provinces. As such during the year under review, increased economic activity propelled by sectors such as Tourism and coupled with enhanced development in the North and East of the country, along with distribution expansion driven by re-settlement in these areas posed an opportunity.

The end of the war brought about positive sentiment for commercial activity, but the persistent problems with illicit trade continued with higher seizures at customs. The Governments intent of cracking down on illicit trade was clearly reflected with regard to this drive. Unfair enforcement of local laws in relation to smoking, although at a reduced level, posed an inconvenience to both consumers and trade.

## Premium segment performance

Dunhill is considered as key to the value growth of the Company's portfolio performance over the longer term. The brand's role is to strategically grow the premium segment by establishing a premium image in the marketplace and through the provision of a clear added-value advantage to the consumer, to drive growth behind the brand. Positioned as "Perfectionists in Tobacco", the Dunhill range available in Sri Lanka under the umbrella "House of Dunhill" carries an extended variant portfolio that aims at creating a richer

product experience. Investments continued into Dunhill in 2010 aimed at creating greater value. In line with this value proposition, the Company introduced a "twelves" pack during 2010.

The strategies deployed during the financial year led to double-digit growth in the premium category led primarily by growth in Dunhill.

B&H pursued a demand based distribution strategy during the 2010 financial year.

## High segment performance

Interestingly in 2010 JPGL witnessed a growth momentum in sharp contrast to market stagnation witnessed in previous years. Overall this propelled the Company towards its strategic objective of achieving value growth. The key marketing project undertaken during the year was the introduction of the new modern pack for JPGL. The transition to the new pack was completed very successfully with a high level of acceptance from consumers and trade. This rejuvenation of the offer has placed a strong foundation for future growth for JPGL.

## Mid segment performance

Global drive brand Pall Mall remained on maintenance mode during the financial year under review with strategic focus on managing distribution and price.

## Low and very low segment performance

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

## Trade marketing and distribution

Though CTC has been one of the few companies to be active in the North and East over the last few decades despite the conflict, in 2010 the Company focused its efforts towards rebuilding the distribution reach in the area. Increased resources were deployed to support this objective and

The resource distribution reflects this alignment, with Dunhill driving premium growth whilst JPGL protects and grows the high segment of the market



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

### **Much to Say on brand rejuvenation**

John Player Gold Leaf (JPGL) has been and continues to be a mainstay brand in the Sri Lankan market. However, in the recent past JPGL has demonstrated a continuous market decline. Moreover, as economic conditions worsened in previous years, consumers of JPGL traded down to other more affordable brands. Nonetheless, in 2010 CTC recognised the need to rejuvenate the aging brand by adding vigour and modernity to its brand identity. So was instituted a plan to rejuvenate the brand JPGL to match the perceptual imagery of the modern day consumer.

In 2010 active support was initiated and investment was made into the relaunch of the brand. The main component of

the relaunch was pack re-design with brand elements modernised to strengthen the brand's equity. With a contemporary look and feel JPGL was relaunched to the marketplace in August 2010.

The brand rejuvenation exercise truly demonstrated the CTC spirit of innovation. The seamless integration and transition from old to new pack with minimal disruption to the volume base, the teamwork and the cross-functional involvement to successfully complete the task were exemplary demonstrations of the CTC potential.

By year-end, JPGL was demonstrating a market comeback. After 2 years JPGL posted a market growth of 4 percent and is expected to be a significant value contributor in 2011.





GOVERNMENT WARNING: SMOKING CAUSES CANCER රජයේ අවවාදය: දුම්බීම පිළිකා ඇතිකරයි අයුතු සන්නිවේදන: ප්‍රතික්ෂේපයක් ප්‍රතික්ෂේපයක් ප්‍රතික්ෂේපයක්

comprehensive training programs were conducted amongst trade to build loyalty.

CTC increased its direct canvassing of retail outlets by more than 10,000 retailers during the year. Efforts to increase the reach and visibility in rural markets across the rest of the nation continued through the implementation of an active stockist concept. This has proved to be successful in effectively reaching pockets of deep rural consumers, and has facilitated CTC's goal of improved direct sales.

## Marketing Human Resource Management

Marketing resource management is a vital component of CTC's growth strategy especially from a human resources perspective. The Company recognises the importance of excellence in marketing resources for the future growth of the business. In 2010, the Marketing Excellence Program was launched with the strategic intention to shape and develop marketing personnel to meet the future needs of the growth pillar. The Program primarily focused on the development of technical

competencies of the junior marketing personnel. In addition to this, selected trade marketing & distribution personnel were sent to competitive markets within the BAT network in South Asia to understand more diverse markets, their dynamics and the competitive frameworks as well as to learn and share best practices.

CTC's excellence in marketing and human resource talent was recognised by BAT with CTC marketing managers working in diverse BAT markets including Indonesia, Malaysia, Taiwan, Hong Kong and Bangladesh.

## Future Outlook

- The Strategic intent of the business will continue to be on value growth. Opportunities created by tourism and the newly liberated markets in the Northern and Eastern provinces will be the future focus. Concerted strategies to optimise the trade marketing and distribution structure will continue.



### Distributor List

Name	Length of Relationship
<b>Colombo</b>	
Arunadisi Ltd	82
W.D. Paulis Appuhamy & Co.	78
Samaranayake & Co. (Pvt) Ltd.	59
Jayawardene & Sons	26
Excel Distributors (Pvt) Ltd	6
<b>South</b>	
S.U. Mohamed Hadjar (Pvt) Ltd	79
K.M. Siyaneris (Pvt) Ltd	79
P.D. Pedoris Appuhamy & Co. (Pvt) Ltd	79
Wickramaratne Distributors (Pvt) Ltd,	24
<b>Central</b>	
Bibile Trading & Forwarding Agency	66
Gamani Bros Ltd	54
Kalmunai Distributors	54
Ampara MPCS Ltd	46
Amirthans Distributors (Pvt) Ltd	24
<b>North</b>	
D.S. Gunasekera Ltd	54
G.H.A. De Silva & Co.	54
Kurunegala Merchants Ltd	44
Kugan Stores	10





### Supplier List

Name	Country	Length of Relationship
<b>Foreign Suppliers</b>		
Tann Papier G.M.B.H	Austria	27
Daicel Chemical (Asia) Pte Ltd	Japan	22
New Toyo Aluminium Paper Product Co (Pte) Ltd	Singapore	22
Henkel Adhesive Technologies SDN BHD	Malaysia	16
Arets Graphics	Belgium	1
Indian Tobacco Company Limited	India	11
General Metallisers Limited	India	11
Anzpac Services (Australia) Pvt Ltd	Australia	10
Tann Philippines Inc.	Phillipines	6
PT Argha Karya Prima Industry, TBK	Indonesia	5
Siegwerk Switzerland AG	Switzerland	5
P T Bukit Muriya Jaya	Indonesia	2
P T Filtrona	Indonesia	2
Tien Wah Press	Malaysia	2
Mitsubishi Corporation	Japan	2
Amcor Tobacco Packaging	Singapore	1
Benkert Malaysia SDN BHD	Malaysia	2

### Local Suppliers

ACE Printing & Packaging (Pvt) Ltd	18
Ceylon Tapes (Pvt) Ltd	12
Packwell Lanka Limited	11
PrintCare Packaging (Pvt) Ltd	4



picture story



Trade Marketing Excellence Awards 2010





*The Annual Distributor Excellence Awards*





# much to think

Productivity  
Management Discussion & Analysis



## Productivity enhancement for “future fit”

In 2010, significant savings were delivered in product cost and Supply Chain overheads through various initiatives. Productivity saving targets for direct and indirect materials were delivered in full. At the same time, foundation has been laid in the form of initiating “Odyssey”- a project about “Future Fit Supply Chain” comprising three key strategic pillars of Leaf Optimisation, Manufacturing Excellence and Logistic Transformation. The cumulative outcome of this project is expected to transform and propel CTC’s productivity into future.

### Leaf Optimisation

Leaf sustainability has been a key concern consequent to a crop size decline in 2008 due to climatic and economic factors. The strategies implemented subsequently with the objective of expediting the recovery of leaf crop and the farmer base aided a full recovery in 2010.

For domestic tobacco cultivation and sourcing, the cost and quality continue to be challenges in comparison to other BAT markets in the region. During the year, the base was laid for the implementation of Project “Rainbow” with the objective of achieving balance between cost and quality in leaf while meeting the demand in full domestically.

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

The “Farmer Appreciation Program” in 2010 witnessed the recognition of commitment and excellence amongst the farmer base. The scale, involvement and investment into the program were maintained at optimal levels with a total of 77 farmers recognised for their contributions.

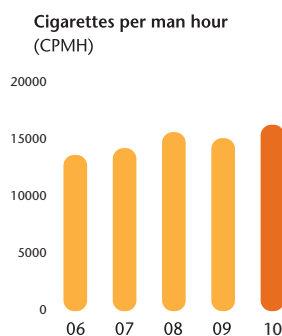
## Manufacturing Excellence

The factory operating model changed through implementation of Project “Rise Up” to optimise factory capacity and cost. Manufacturing needed to review the assumptions and constraints in light of upward sensitivity in demand unlike the previous years. The team rose up to the challenge and came up with the “Star Plus” initiative to build capabilities, meeting demand with right quality and cost in the short to medium term. This is now a key strategic pillar of the project “Odyssey” in Supply Chain.

All key expectations on product quality and cost were met. Focus was brought back on technical training and development of people. Innovation is an area where people have excelled e.g. step improvements in performance of Sasib packing machine, machine layout and configuration change to improve output etc,. Other key highlights were the successful implementation of the JPGL pack change project and the introduction of Dunhill 12’s pack together with Marketing.

### Logistic Transformation

Review of our logistic operation highlighted opportunities to reduce complexities and cost while delivering better service. Remodelling of leaf and finished goods transportation and warehouse operation was taken as a key strategic pillar (Destiny) to transform from many, small to a single, large 3PL operation optimising value chain at every stage of our supply chain operation. Initiatives are being implemented in phases to be completed by next year.



For domestic tobacco cultivation and sourcing, the cost and quality continue to be challenges in comparison to other BAT markets...





Through the spectrum of CTC's seed to smoke operations – we have moved towards enhanced integration of our supply chain, tightening slack and refining for increased efficiency at every stage. Employing a two pronged strategy of cost reduction coupled with improved efficiency, we have in 2010, harnessed a better yielding supply chain. Redefining existing and implementing new practices has enlarged the impact on the bottom-line, positively. However, in moving forward, CTC realises the need for an integrated approach to productivity management and in this respect the implementation of BAT's "Future Fit Supply Chain" management process will assure CTC's commercial success.

In 2010 Project "Odyssey" was launched and the implementation will fall into 2011 and beyond.



### Future Outlook

We will continue to have our challenges due to changes in market realities and economy. Therefore, we need sustained focus on product cost at the right quality meeting demand in full. Implementation of Project “Odyssey” will build and deliver necessary capabilities and initiatives in Supply Chain to support the company to achieve its corporate vision.



#### Strategic Pillar 1 : Rainbow : Leaf Optimisation

- Aims to optimise leaf cost with improvements in quality through productivity and yield enhancements, cost curtailment, and adoption of best practices in Agronomy.

#### Strategic Pillar 2 : Star Plus : Manufacturing Excellence

- Aims to enhance performance at factory level with focus on machinery and training and development with overall operational optimisation.
- Create the blue print of technology foot print coupled with the right operating model for the factory to meet quality, cost and volume expectations.

#### Strategic Pillar 3 : Destiny : Logistic Transformation

- Aims to transform the logistics process from leaf to customer with the objective of improvements in cost, efficiency and service levels.



Annual Tree Planting Day



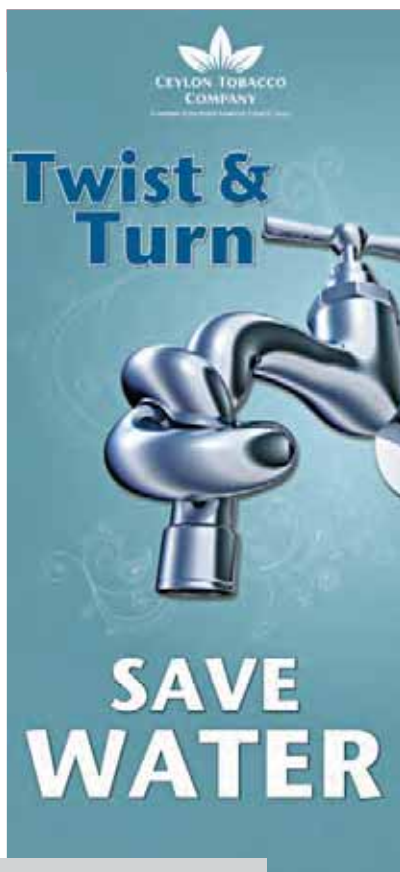
picture  
story







*Distribution of saplings to farmers to celebrate annual tree planting day*



*"Go Green" Week*



*Annual Farmer appreciation program*







Responsibility  
Management Discussion & Analysis

# much to feel



### Responsibility as an inclusive corporate process

At CTC responsibility is an inclusive element of the corporate process. Our business principles, mutual benefit, responsible product stewardship and good corporate conduct (page 54) cover the key issues that we believe underpin Corporate Social Responsibility (CSR). A focused, concerted and strategic sustainability drive has been the pivot of CTC's corporate process, not only in the year under review but for over hundred years of operations in Sri Lanka.

The importance of responsibility and sustainable practice is exemplified by CTC's approach to sustainable corporate behaviour. Driven by Outreach Projects (Guarantee) Limited, which was incorporated in 2009 as the CSR arm of the Company, and which operates independently with an independent Board of Directors, CTC stresses on transparency and accountability of its responsibility initiatives. Outreach Projects executes the corporate strategy for sustainable behaviour. However, it is also CTC's premise that social responsibility is the 'responsibility' of everyone at CTC, from top down – the management, the staff and other stakeholders.

Stakeholder contributions, views and perspectives, one and all, are much valued. From employee induction to supplier dealings, the notion of sustainability is a sound principle that is given the highest priority. The Company not only encourages involvement but also seeks opinions through constructive dialogue, actively listens and incorporates suggestions for improvement. Stakeholder engagement through an established dialogue process empowers stakeholders to raise issues and to map the progress of their resolution by the Company or to be abreast of action taken towards mitigating their concerns. CTC is consistently committed to operating in an open and transparent way and "bringing the outside in" by listening and responding to its stakeholders on topics that matter to them.

### Outreach Projects (Guarantee) Limited

Established in December of 2007 and incorporated as a Guarantee Company in 2009, Outreach Projects (Guarantee) Limited presently comprises of an overall employee strength of 41 (Direct - 5 | 3rd Party - 36) guided and managed by a General Manager that directly reports to its Board of Directors. At present, the sole donor to Outreach is the Ceylon Tobacco Company PLC.

As per its mandate of greater transparency, an eminent Board of Directors comprising Desamanya Ken Balendra; Jayampathi Bandaranayake; Ali Naseer and N. S. Hales oversees the activities of Outreach.

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

### Defining Sustainability

Sustainability has different connotations and meanings to different people based on their expectations and experiences. For some, corporate sustainability is viewed from the perspective of commercial sustainability and the ability of the business to generate continued long-term profit growth. 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".

CTC's interpretation of sustainability lies firmly in addressing the key business-related impacts - social, environmental and economic - in a way that builds stakeholder and shareholder value, thereby improving commercial sustainability. In essence sustainability is an act of balance at CTC - a mutual



### Sustainable Agricultural Development Project (SADP)

**PROJECT VISION:** To reach out to rural villages living below the poverty line in lagging regions of Sri Lanka and guide them to achieve self-sustenance by creating a paradigm shift in imparting knowledge and resources.

**PROJECT OBJECTIVE:** To implement the Program amongst 14,000 rural families by 2012 and there by alleviate poverty among these families in a sustainable manner, through / by

- Providing a balanced meal - Improve nutritional intake from 1,429 cal beyond to 2,030 cal per day
- Increasing the level of agricultural knowledge
- Providing an additional source of income
- Female empowerment

inclusiveness of commercial, social, environmental and economic sustainability.

The Sustainable Agricultural Development Program (SADP) is a unique concept developed by CTC and is based on the philosophy “we help those who are willing to help themselves”. Initiated in 2005 as a fledgling project aimed towards poverty reduction amongst a few families it has since grown to be CTC’s flagship sustainability project with an ambitious target of supporting 14,000 families who are the poorest of the poor in remote poverty stricken areas of Sri Lanka by 2012.

There are over three million people living below the poverty line, amounting to 15.2% of Sri Lanka’s total population. The official poverty line is defined as the per-capita expenditure required for a person to be able to meet the nutritional anchor. Poverty alleviation has been a top priority at governmental and non-governmental human development planning for the last three decades. Though a United Nations Millennium Development Goal, poverty alleviation efforts in Sri Lanka have principally been in the form of direct assistance to affected parties and have rarely been packaged in a sustainable livelihood development model.

CTC’s involvement with the rural community of Sri Lanka dates back in excess of fifty years, to an era of early commercial tobacco crop cultivation. CTC has earned recognition for one of the best agricultural extension systems with the rural

farming community and as a pioneering exponent of the forward contract system. The Company’s experience in knowledge sharing, technology input and perception development together with learning gleaned by way of previous CSR projects such as Sloping Agricultural Land Technology (SALT) project, tank restoration and sharing of agricultural best practices with non tobacco farmers has given us an insightful perspective to understand and design an operational model for poverty alleviation.

Built on precepts that differentiates the model from other poverty alleviation efforts, the SADP concept is based on knowledge transfer, creating a paradigm shift in attitude among the rural community and 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 program is implemented by selecting rural families living below the poverty line and the introduction of basic techniques to reduce cost of fertiliser, maximise existing resources, conservation methods and the introduction of limited inputs such as vegetable seeds and poultry at the first phase of the project. The second phase introduces the villagers to api-culture, animal husbandry and mushroom cultivation.



Thereby, SADP assists participating families to sustain themselves by meeting their daily nutritional needs through the produce grown in their own home gardens, through their own efforts.

Stage 1 0-6 Months Recruitment	Stage 2 6-15 Months Vegetables and Poultry	Stage 3 16-24 Months Animal Husbandry	Stage 4 24-30 Months
<ul style="list-style-type: none"> <li>* Registration</li> <li>* Compost Pit</li> <li>* Fencing</li> <li>* Gliricidia</li> <li>* Issue of Plants and seeds</li> <li>* Field Support</li> </ul>	<ul style="list-style-type: none"> <li>* Forming Clusters</li> <li>* Forming Societies</li> <li>* Issue of Plants and Seeds</li> <li>* Poultry</li> <li>* Field Support</li> </ul>	<ul style="list-style-type: none"> <li>* Issue of Goats</li> <li>* Issue of Plants and Seeds</li> <li>* Field Support</li> </ul>	<ul style="list-style-type: none"> <li>* Preparation for Graduation</li> <li>* Graduate after 30 months</li> </ul>

Year	2005	2006	2007	2008	2009	2010
Recruitment	100	715	785	1998	1992	800
Cumulative	100	815	1600	3598	5590	6390

In 2009, an external research was conducted by TNS Lanka, an independent research company to determine the effectiveness of the SADP project in meeting its project objectives. The following research results were reported and demonstrate that the project has successfully met its objectives across all the parameters.

### Impact of the Project

Indicators	Baseline	Monitoring	End-line
Savings Percentage (%)	53%	58%	85%
Consumption of Home garden food (Vegetables)	24%	63%	74%
Consumption of Home garden food (Fruits)	16%	32%	40%
Consumption of Home garden food (Animal products)	5%	41%	30%
Energy (Calories)*	0.99	1	1.14
Protein (g)*	1.24	1.11	1.31
Calcium (mg)*	0.93	0.89	1.2
Iron (mg)*	0.92	0.96	1.08
b-Carotene (pg)*	1.04	1.28	1.94
Vitamin C (mg)*	2.08	2.8	4.3
Sold (Vegetables & Fruits)	14%	22%	29%
Sold (Animal Husbandry)	32%	38%	39%

// Following the death of  
my husband, I endured  
many hardships in  
bringing up my  
children. //

*Jamila - Trincomalee*



**//** The vegetables are of poor quality in the market and provide no nutrition for my family.

Today with the money I earn from selling produce from my own home garden, I can afford to educate and feed my children.

**//**

## Satisfaction and self evaluation

Indicators	Monitoring (n=60)	End-line (n=20)
Satisfaction with SADP (Extremely)	45%	65%
Comparison of Previous & Current Economic situations (Improved + Improved a lot)		
Improved	77%	65%
Improved a lot	23%	35%
Self sustainability		
Self-sustainable	77%	65%
Very Self-sustainable	23%	35%

\* The beneficiaries are extremely satisfied with the entire project

\* All the beneficiaries state that their economic situation and self sustainability have improved while 35% of those in the end-line believe that their economic situation has improved a lot!

## SADP PLUS

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

SADP Plus, like its sister project 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 program at the end of a period of two and a half years.

In 2009, 1,700 families were recruited to the program. With a commitment towards ensuring equitable ethnic diversity, the program aims to achieve a clear balance amongst all communities. SADP Plus currently operates in three villages across the Trincomalee District.

## SADP LITE

As an extension of SADP to the Northern Province, CTC initiated a hybrid project SADP Lite in 2010. The project recognises the need to re-tool ex LTTE-combatants with knowledge that can empower them sufficiently to lead satisfactory lives whilst sustaining themselves and their families through new skills. SADP Lite is a program that aims to impart vocational training on agriculture, stemming from the original flagship project SADP. Initiated in response to a request by Ministry of Rehabilitation and Prison Reforms, SADP Lite has a program cycle that covers a period of 12 months and is expected to benefit 1500 participants.

The projects main aim is to enable ex LTTE-combatants/beneficiaries to move away from their past to face the future with confidence by integrating into the communities with self-confidence and hope for the future.

### Rebuilding post-conflict Sri Lanka

During the year 2010, CTC extended its support to the Government of Sri Lanka to rebuild the conflict affect areas of the nation, especially the Northern and Eastern provinces. To this effect it supported reconstruction efforts specifically in the infrastructure development. The renewal of commercial activity in the Northern and Eastern provinces heralded a series of opportunities to increase the involvement of traders from the communities in CTC's own commercial operations. Trader training and business skills development were conducted to ensure that commerce grows within the regions.

In the same vein, CTC pledged its support towards the re-institution of civil administration in the war affected North and East. In recognition of the fact that it is timely for the armed forces to lower their presence in the region for normalcy to return, CTC re-affirmed its commitment to the Government to assist the establishment of civil administration through the establishment of Police stations. Two 'A' grade Police stations were built in Kilinochchi and Mankulam. The Kilinochchi Police station has accommodation for 130 Police personnel. On the 3rd of December these Police stations were ceremonially opened by Hon. Prime Minister D. M. Jayaratne.

### Hygiene Academy

In 2010, led by CTC's Marketing team, the Company's Hygiene Academy created pervasive awareness on the need for hygiene excellence at retail points, specifically those serving meals. Approximately 500 trade partners attended training with the presence of a Public Health Inspector to educate the audiences on the necessary standards of hygiene in the maintenance

of an outlet. The training aimed to raise the level of awareness on the maintenance of good hygiene practices and their inherent benefits. As an extension of the same initiative 'sathkara' program was concluded with the intention of assisting the traders to be compliant with quality standards in their eateries.

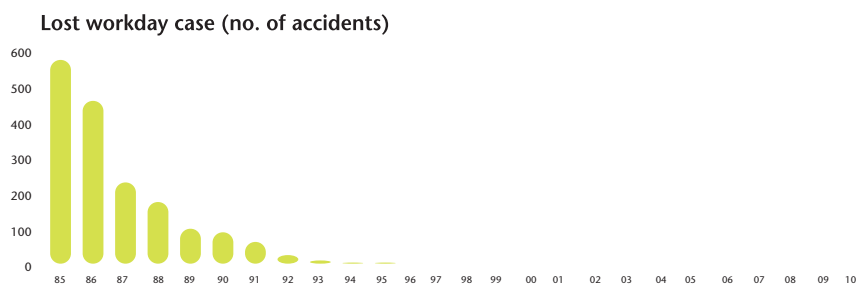
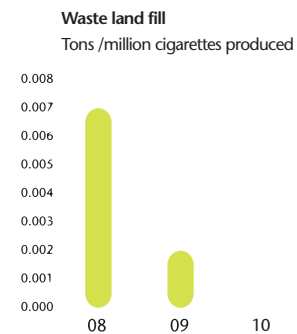
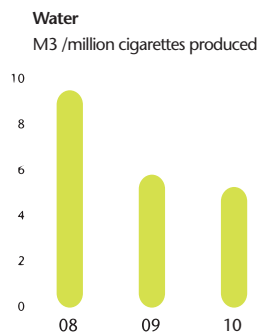
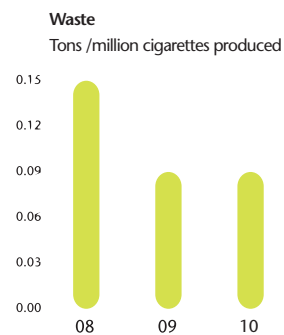
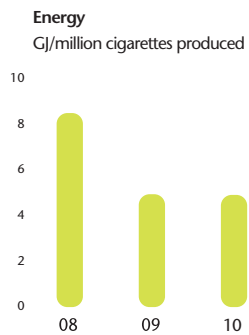
### Environmental Health & Safety

The Company's EHS strategy aims to reduce CTC's impact on the natural environment, reduce the impact of work on the health and well being of CTC's employees and strives to create an open and transparent environment in communicating performance. In the long term, CTC recognises that the successful implementation of an EH&S strategy will direct the Company to a level of improved corporate efficiency whilst delivering on the aim of doing business responsibly.

CTC maintains British American Tobacco's standards in Environment, Health and Safety while complying with EHS related national laws and regulations. Implemented under the direction of the Supply Chain Director and executed by a full time EHS Manager together with cross-functional teams organisation-wide, CTC is committed towards achieving a safe, healthy and environmental friendly work environment.

During the year 2010, CTC was recertified with the ISO14001: 2004 Environmental Management System and certified with the OHSAS 18001:2007 Occupational Health and Safety Management System as well as ISO 17025:2005 quality assurance program.

## KEY INDICATORS FOR 2010





## Environmental Health & Safety Policy

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

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



James Yamanaka  
Chief Executive Officer





## Biodiversity Statement

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

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

In order to meet this commitment:

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

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

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

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

James Yamanaka  
Chief Executive Officer



# Statement of Business Principles

## Business Principles and Framework for CSR

### ► The Principle of Mutual Benefit

### ► The Principle of Responsible Product Stewardship

### ► The Principle of Good Corporate Conduct

The principle of Mutual Benefit is the basis on which we build our relationships with our stakeholders. We are primarily in business to build long term shareholder value and we believe the best way to do this is to seek to understand and take account of the needs of all our stakeholders.

#### Core Beliefs

##### **MB1** We believe in creating long term shareholder value

**MB2** We believe in engaging constructively with our stakeholders

**MB3** We believe in creating inspiring working environments for our people

**MB4** We believe in adding value to the communities in which we operate

**MB5** We believe that suppliers and other business partners should have the opportunity to benefit from their relationship with us

British American Tobacco p.l.c. is owned by shareholders whose rightful expectation is that we should grow its profitability by the members of its Group competing effectively for market share amongst adult consumers of tobacco products.

In doing so, we take a long term view and believe that high standards of behaviour underpin sustainable shareholder value.

We recognise that a reduction in the health impact of tobacco consumption is a legitimate public health objective. However, tobacco products are legal, significant demand for them exists and seems likely to continue and informed adults have rights to consume them and to choose the brands they prefer. We have a role in helping to preserve our consumers' rights, as do others.

Our responsibility is to compete lawfully and vigorously for our share of the legitimate market amongst informed adult tobacco consumers.

##### *We will:*

- Focus on understanding adult tobacco consumers' preferences and the characteristics of the markets where we wish to compete;
- Provide a range of quality products and brands meeting these different preferences;
- Within the law, use all appropriate means to communicate responsibly with these consumers about our brands.

We share a role with other parts of society in respecting the rights and freedoms of informed adults to consume tobacco products.

##### *For our part, we will:*

- Work with all relevant stakeholders for preservation of opportunities for informed adults to consume tobacco products;
- Work with governments to preserve the rights of informed adult consumers to be able to choose the products and brands they prefer.

We see it as the responsibility of governments, when legislating, to uphold consumers' rights and freedoms of choice, to make balanced decisions based on sound evidence and to uphold our right to conduct a legal and competitive business.

##### *We will support governments in doing so by:*

- Providing evidence to them on these issues;
- Emphasising the right of informed adults to consume tobacco products;
- Advocating fairness and consistency in the enforcement of tobacco regulations.

► The Principle of Mutual Benefit

► The Principle of Responsible Product Stewardship

► The Principle of Good Corporate Conduct

## Responsible Product Stewardship

The principle of Responsible Product Stewardship is the basis on which we meet consumer demand for a legal product that is a cause of serious diseases. Therefore, our products and brands should be developed, manufactured and marketed in a responsible manner. We also aspire to develop tobacco products with critical mass appeal that will, over time, be recognised by scientific and regulatory authorities as posing substantially reduced risks to health.

### Core Beliefs

- We believe in the provision of accurate, clear health messages about the risks of tobacco consumption
- We believe the health impact of tobacco consumption should be reduced whilst respecting the right of informed adults to choose the products they prefer
- We believe that relevant and meaningful information about our products should continue to be available
- We believe that underage people should not consume tobacco products
- We believe that our brands and products should be marketed responsibly and directed at adult consumers
- We believe in the appropriate taxation of tobacco products and the elimination of illicit trade
- We believe in regulation that balances the interests of all sections of society, including tobacco consumers and the tobacco industry
- We believe that public smoking should be approached in a way that balances the interests of smokers and non-smokers

► The Principle of Mutual Benefit

► The Principle of Responsible Product Stewardship

► The Principle of Good Corporate Conduct

## Good Corporate Conduct

The principle of Good Corporate Conduct is the basis on which all our businesses should be managed. Business success brings with it an obligation for high standards of behaviour and integrity in everything we do and wherever we operate. These standards should not be compromised for the sake of results.

### Core Beliefs

- We believe our businesses should uphold high standards of behaviour and integrity
- We believe that high standards of corporate social responsibility should be promoted within the tobacco industry
- We believe that universally recognised fundamental human rights should be respected
- We believe the tobacco industry should have a voice in the formation of government policies affecting it
- We believe in achieving world class standards of environmental performance





# picture story



“ my mushroom cultivation  
now helps me pay the water  
and electricity bills. ”

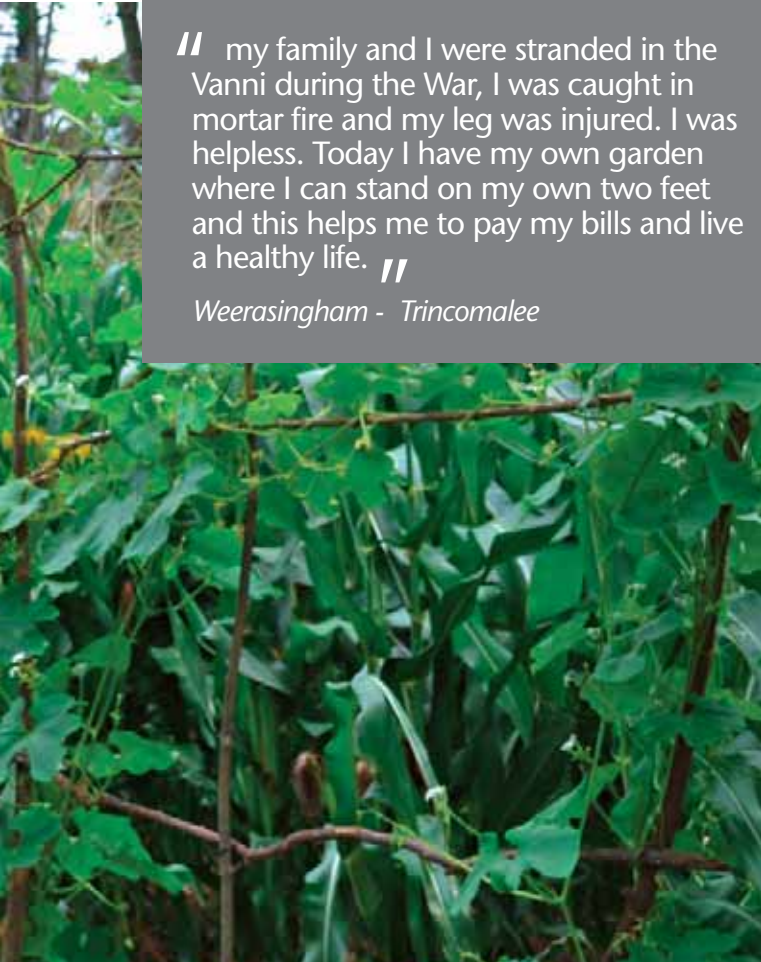
Krishnakumari - Naula





“ my family and I were stranded in the Vanni during the War, I was caught in mortar fire and my leg was injured. I was helpless. Today I have my own garden where I can stand on my own two feet and this helps me to pay my bills and live a healthy life. ”

Weerasingham - Trincomalee



“ Today, we are no longer a burden to our children. ”

Jayaweera - Naula







## Opening of the Kilinochchi and Mankulam Police Stations by Hon. Prime Minister D. M. Jayaratne







Winning Organisation  
Management Discussion & Analysis

# much to share





## Winning through people-orientation

CTC's human resources is the very backbone of the Company's commercial success and the lifeline of its strategy. It is the Company's people-orientation that establishes CTC as a winning organisation. The right people and the right working environment set the stage for CTC to achieve its vision to be the inspiration for corporate excellence in Sri Lanka.

From a Human Resources perspective the year 2010 was a year of change with regard to company's leadership. With six new faces in our top team and more than half of our managers undertaking new leadership roles, our focus for this year revolved on facilitating and supporting this change from sourcing to development of our people while promoting the required organisational change which will create a culture driven with passion and energy.

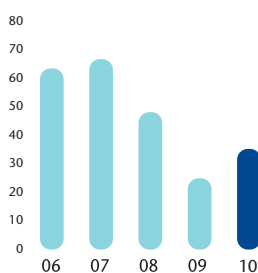
## Renewing focus on Talent and Leadership Development

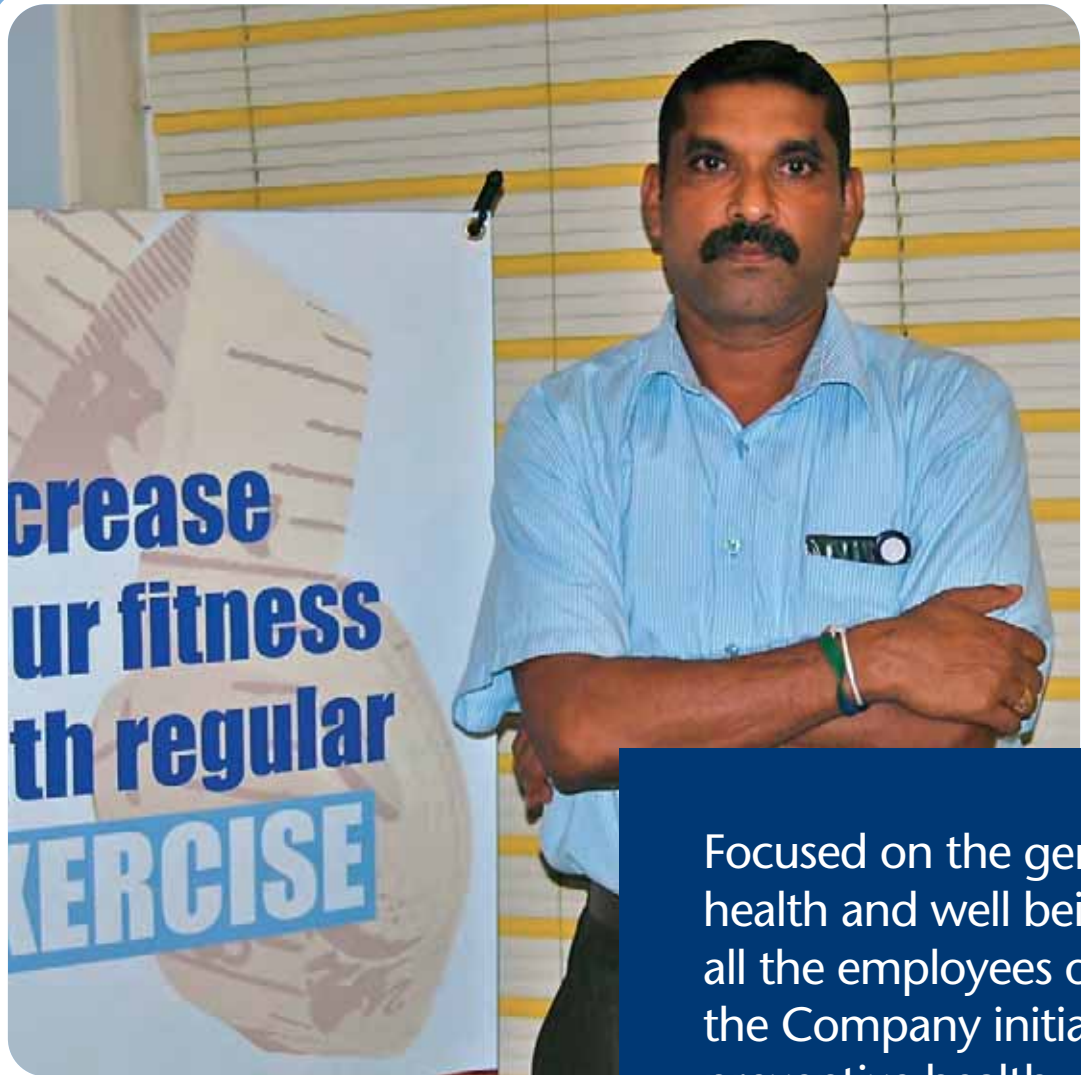
The constantly changing external environment, in particular the shifting market context demands CTC to be dynamic in how it approaches commercial operations. More importantly, the environmental vicissitudes require CTC to be well equipped to tackle potent challenges and to reap from future opportunities. To do so, the Company

continues to believe and place greater focus on growing and nurturing the next generation of leaders. Consequent to a tight resource allocation in 2009 due in part to constricting budgets - an outcome of recessionary pressures and a fall out of the financial crisis - 2010 was a year of recovery. As such during the year, CTC strengthened its efforts and accelerated its program of activity towards Talent and Leadership Development.

During the year under review, talent development was focused primarily on Executive and Managerial skills development with the intention to develop skills to meet changing business needs. Talent assessments were conducted during the year to identify the organisation-wide talent development needs, with a focus on matching individual capabilities to expected business requirements and challenges in the long term. Exploring global BAT talent development programs with a mix of locally developed programs that are more sensitive and appropriate to its unique organisational culture and context, CTC's approach to talent development aimed towards the utilisation of best in class interventions. International training opportunities for senior management were intensive during the year with approximately 16% of the Company's senior and middle level management engaging in global leadership development programs. Customised and specialist programs were

Training & development  
(Rs. Mn.)





Focused on the general health and well being of all the employees of CTC, the Company initiated a preventive health program for all employees

### **Much to say on “Losing it with CTC”**

CTC in 2010 undertook a number of innovative steps to “re-energise” the CTC family. The most novel of these initiatives was the “CTC Biggest Loser” program that was initiated for the first time in 2010. The program attracted twenty-one participants and was held over a 3-month period with the intention of shaping a healthy and sustainable lifestyle for each of the participants. Modeled around the reality show “Biggest Loser”, CTC’s program focused on weight loss, healthy eating and in inculcating a balanced lifestyle and was facilitated by a team of dieticians, personal trainers and counselors.

conducted locally with the intention of addressing critical training needs. As in the past CTC continued on the job training methodologies with mentoring and coaching taking a lead in this perspective.

The year 2010 was a year with many opportunities for our talent base, with the global operations recognising the exceptional quality of the CTC talent. As such, CTC exported 10% of its managers to the BAT world. This in fact is a great testimony for CTC's robust talent and leadership development process. This is further exemplified by the fact that another 30% of CTC's managers enjoyed career progression within CTC whilst another 6% of managers experienced lateral development.

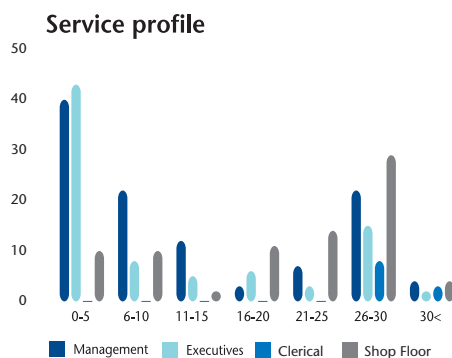
The Company further enhanced the CTC Global Management Trainee Program by inducting a further 3 Management Trainees to the system. Full adherence to the global guidelines and proceeding with development plans in place was a key achievement in 2010.

The year was an exceptional period for talent attraction with 18 recruitments finalised during 2010. Most importantly, CTC was able to attract talent with a sound track record and great potential. A major recruitment drive was initiated during the year infusing greater innovation and

creativity to the process in an effort to enhance the employer brand. The recruitment process was fully exploited as an opportunity to showcase the operations and the culture of a world-class company. The main intention of the recruitment process was to create 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.

In developing the key tactics for the recruitment process, CTC proactively developed the line managers by providing a comprehensive awareness on the recruitment process with special focus on selection techniques. As such the Company trained the senior management team on interviewing skills with emphasis on psycho-analytic techniques. Consequently, the team is equipped with the latest and most advanced know-how to select the best talent for the future success of the Company.

CTC continued to focus heavily on employer brand enhancement during 2010 by further strengthening its partnerships with universities and academic institutions. The University Partnership program continued to be a source of high quality and young talent. Through the program, the Company was able to add greater equity to CTC as an employer brand through corporate



presentations and internship opportunities afforded to students.

### “Re-energising” through Employee relations

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.

Focused on the general health and well being of all the employees of CTC, the Company initiated a preventive health program for all employees, which was aimed at creating awareness of their health status through regular check-ups and preventive healthcare measures. In line with the same objectives, the CTC Biggest Loser program was launched in 2010.

During the year, through excellence in employee relations and due in large to the family orientation and the pervasive awareness of business goals, CTC implemented a strategic and critical change process at factory level aimed at enhancing the overall productivity of the Company.

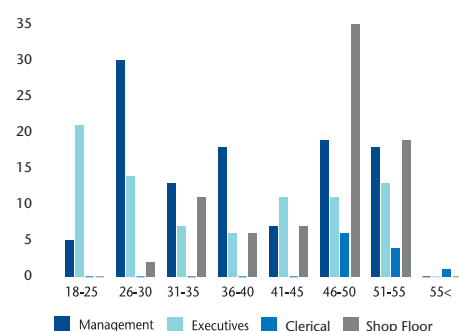
The introduction of two shifts with the shaving off of one extra shift was carried out seamlessly and with immense support from every CTC team member.

This year as in previous years CTC enjoyed excellent industrial relations with zero disputes. The signing of a new collective agreement with CTC’s labour unions further demonstrated their commitment to the organisation’s well being. 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.

### Future Outlook

Going forward, 2011 will be a year in which CTC will continue to place concerted emphasis on the development of the Talent pipeline thus enhancing the Company’s leadership capability. Apart from on the job training interventions, CTC will continue to place emphasis on other of talent development tools such as South Asia Exchange Program, BAT short term assignments to share and learn best practices, functional development moves and stretch projects both at a business and functional level which will equip CTC’s future leaders with the right skills and knowledge to drive performance to greater heights in the coming years.

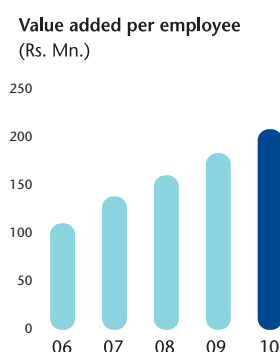
Age profile





As market competition for talent and HR intensifies, CTC will continue to build on its Employer Brand, consistently differentiating itself to enable it to attract and retain the very best of Sri Lankan talent by continuing its structured internship program with leading local and foreign universities, sharing best practices with key manufacturing companies and increasing our management presence in professional associations and universities via guest lecturing and mentoring programs.

Building on existing relationships with the Labour Unions, CTC's challenge is to maintain sustainable industrial relations enabling the organisation to manage change and enhance quality and productivity whilst promoting an energised and inspired workforce.



*Rewarding excellence*

# picture story

*SADP "Pola" held for the employees*





*Celebrating International Women's day*



*Annual family day*



*Annual CTC Night*



*Employee volunteer program for CSR*







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



*Security Union*



*Ceylon Mercantile, Industrial and General Workers Union (CMU)*





FBTIEU - Kandy Branch



Yala - Barnowners Association



Maha - Barnowners Association

# Global Reporting Initiatives at CTC



The GRI was convened in 1997 by the coalition for environmentally responsible Economics (CERES), in partnership with the United Nations Environment Program (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 organizations and their stakeholders. And CTC will report on G3 for disclosing social, Economic and Environmental Performance in our Annual Report in 2010. Details on the Global Reporting Initiative can be found at [www.globalreporting.org](http://www.globalreporting.org).

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## Profile - Ceylon Tobacco Company

Ceylon Tobacco Company PLC (CTC) a member of the British American Tobacco Group is the only legal producer and marketer of tobacco products in Sri Lanka.

The company's operations span from growing and processing of tobacco to distribution and marketing of cigarettes. Today CTC serves the domestic cigarette market and also exports its products to the Maldives. CTC's corporate offices and main factory are located in Colombo, and its leaf processing plant is in the central city of Kandy, with tobacco cultivation and other activities carried out in various regions of the country.

The company produces and markets seven brands of Cigarettes- Dunhill, Benson & Hedges, John Players Gold Leaf, Pall Mall, Capstan, Four Aces and 3 Roses. In 2005 CTC launched Dunhill signed range cigars to the local market.

## Reputation and Integrity

CTC has maintained its reputation for integrity and compliance with the law for more than 100 years of operation. The company adheres strictly to principles of good corporate governance and has been a listed company on the Colombo Stock Exchange since 1954. Today the marketing activities of the organisation are governed first internally through the International Marketing standards as well as the NATA act (National Authority on Tobacco and Alcohol act) which was enacted in December 2006.

## Company history

CTC was incorporated in 1932 in Sri Lanka, and took over the operations of three separate tobacco businesses in the country at the time- British American Tobacco Company (Ceylon) limited, Westminster Tobacco Company limited, and Thomas Bear & Sons Limited.

The company began growing Virginia flue-cured tobacco in the early 1950s with the assistance of the department of agriculture and British American

Tobacco Company, London. CTC was listed on the Colombo stock exchange in 1954. The same year the company acquired the business of Godfrey Philips limited (Formerly Rothmans Limited), and obtained the right to manufacture its brands in Sri Lanka.

## Ownership

CTC is a public quoted company whose shares are traded on the Colombo Stock Exchange with 4,000 shareholders. The company's largest shareholders are British American Tobacco Holdings (Sri Lanka) BV and FTR Holdings SA.

## Contribution to the state

CTC is an important contributor to the revenue of the Government of Sri Lanka with a Rs. 56 billion contribution in 2010 to the state.

## Management

The CTC board comprises of eight Directors including the Chairman.

The Executive Committee (ExCo) comprises members working as a collective group of Heads of all Functions. The main responsibility of ExCo is to develop the overall strategy together with the Board and give direction to senior management in implementing the strategy. The Operating Committee (OpCo) in consultation with across section of senior management proposes changes and strategies to ExCo whilst looking into the day to day operations of the business. There is therefore a robust constant flow of information between management, OpCo, ExCo and the Board.

## Workforce

The company has a full time workforce of 284. The company also works with over 32,000 retailers, and 18 distributors.

## Economic Sustainability

At CTC we believe that economic sustainability is an obligation not only to our company but for the whole community. We strive to fulfill the expectations of our shareholders, employees and also contribute to the benefit of the public by consistently excelling in our financial performance.

We have through out the years been a company that yields high benefits for our employees. We make sure that the success of our financial performance also reaches the employees.

### Savings on production

It is the company policy to procure quality goods and services at the lowest available price. The initiative to use paddy husk as a source of fuel not only paved way to save money but also to give remedy to long fought environmental issue.

### Delivering shareholder value

The company strategy is aligned towards delivering value to its shareholders. Improving productivity through smart cost management and increasing efficiency leads to creating high value. Although CTC is the only manufacturer of cigarettes in the country, it still faces challenges and has many opportunities to capitalise on.

While the increased regulatory actions towards the industry remain at large, CTC has taken appropriate measures to ensure sustainability by maintaining a strong brand portfolio and the right responsibility strategy.

### Risk Control

All businesses face risk and ultimately increased shareholder value is the reward for successful risk taking. The management of risk is supported by the allocation of resources to maintain an efficient and effective control environment.

The Company maintains a sound system of internal control with a view to safeguarding shareholders' investment and the Company's assets.

This system is designed to manage risks that may impede the achievement of the Company's business objectives rather than to eliminate these risks, and can therefore provide only reasonable, not absolute, assurance against material misstatement or loss. The internal, external and global audits ensure a robust method to control the risk environment.



## G3 Economic Performance Indicators

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
			Rs. Mn	Rs. Mn	Rs. Mn
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.	Gross Revenue	54,763	58,079	63,524
		Interest Income	445	416	260
		Purchase cost & services	(5,246)	(3,569)	(4,327)
		Other operating income	60	93	36
		<b>Value Generated</b>	<b>50,022</b>	<b>55,019</b>	<b>59,493</b>
		Distribution			
		State	45,613	49,346	53,149
		Shareholders	2,351	3,434	4,805
		Employees	1,018	1,235	1,030
		Depreciation	224	202	197
		Donations & CSR activities	406	121	20
		Retained Profits	410	681	292
		50,022	55,019	59,493	
EC2	Financial implications and other risks and opportunities for the organisation’s activities due to climate change.	Increasing Regulatory Pressure	Decrease in sales volume.		
		High Inflation	Increase in the cost base and decrease in sales volumes due to lower disposable income of the consumers.		
		Exchange rate fluctuation	Impact on imports of production materials.		
		Economic growth rate	Consumers’ disposable income is affected.		
		Increasing government expenditure	Excise led price increases will result in a 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 organisation’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 with a service of 5 to 10 years will receive half a month salary for every year of service and employees with more than 10 years service will receive 1 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)	626.8	874.4	892.3
		Value of gratuity scheme assets as at 31st Dec (Rs. Mn)	665.4	874.4	893.9
		EPF (annual contribution)	54.5	54.0	57.2
		ETF (annual contribution)	9.8	10.9	11.5

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
EC4	Significant financial assistance received from government.		Nil	Nil	Nil
EC6	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 and standards at the lowest available price.			
		Total indirect spend on suppliers (Rs.Mn)	1,840	2,241	2,473
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.	<p>At CTC succession planning is central in managing talent. Vacancies created at the managerial entry level are filled through a best in-class selection procedure.</p> <p>When the requirement for a new position is realised by the company internal and external advertisements are placed. Then the first round interviews is conducted and a minimum number of candidates will be short listed. Then the short listed candidates have to undergo an ability test and be assessed in an assessment centre for a full day. Through the assessment centre they are short listed again for the final interview.</p> <p>Technicians and Trade Marketing Executives (TME) are selected through a process of two rounds of interviews and an assessment center.</p> <p>If specialised roles are required they are filled through head hunting.</p> <p>Currently the company has 13 senior managers and 11 of them are locally hired.</p>			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	<p>The company in its efforts to alleviate poverty has launched a program 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 farmers and achieving long term 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 four stages and an entire cycle takes two and a half years. It is hoped that by 2012, the concept will be extended to positively benefit 14,000 of rural households.</p> <p>The above program was further enhanced and was launched in the East of Sri Lanka, named "Sustainable Agricultural Development Program Plus" (SADP Plus). Three villages from Trincomalee District were selected for this program namely Thampalakamam, Gomarankadawala &amp; Morawewa where CTC has registered 1,700 families in 2010.</p>			

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
EC8		<p>In expanding the project, CTC introduced “Sustainable Agricultural Development Program Lite” (SADP Lite) in 2nd Quarter of 2010, to assist 1000 ex- LTTE Combatants (beneficiaries) in imparting agriculture related vocational training and the program is designed for a period of 12 months.</p> <p>After ending three decades of civil war in Sri Lanka, the Government invited private sector to assist in re-establishing civil administration in the North and East. CTC responding to the national priority built two “A” grade police stations in Killinochchi and Mankullam. The Killinochchi police station has accommodation for over 130 police personnel. These two police stations were completed at a cost of Rs.114.8Mn and were ceremonially declared open by the Honorable Prime Minister D. M. Jayarathne on the 3rd of December 2010.</p> <p>After the Tsunami in 2004, CTC contributed to the rebuilding and rehabilitation process by building 80 houses in Hikkaduwa and 50 houses in Thirukkivil. Since the war is over the company is in a position to build the 72 houses planned for Jaffna in 2010. CTC funded 2/3<sup>rd</sup> of the cost and North East Community Restoration and Development Project (NECORD), funded the balance. The total cost incurred to build these 202 houses was Rs.140.9Mn.</p>			
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Over 2.8Mn people live below the poverty line in Sri Lanka. Through our flagship CSR project Sustainable Agricultural Development Program (SADP) – (Details in EC8) we hope to support 14,000 families by 2012. As at end 2010 we have been in a position to support over 9,000 families in 12 districts by assisting them to develop their home gardens and obtain the nutrition requirements for their families from their own home garden.			

## Social Responsibility

We believe that our CSR framework activities provide a blueprint for a responsible tobacco business. Based on our Business Principles, it was developed together with stakeholders in dialogue. The Framework takes each of our Core Beliefs and sets out how we see the different roles in each of these areas – where we should take the lead, where we should work with others and where we think others should take the lead.

We recognise the role of corporate citizen in social responsibility and have long supported local community and charitable projects. We approach Corporate Social Investment (CSI) as an end in itself, rather than as a way to promote ourselves, and our company has always been closely identified with the communities where we operate.

### Our global themes

Our policy is aligned with the global themes that exist in BAT.

- Sustainable Agriculture
- Civic Life
- Empowerment

The Sustainable Agricultural Development Program is an example of combining all the three themes.

Sustainable agriculture covers CSI contributions to the social, economic and environmental sustainability of agriculture. It includes activities such as efforts to improve biodiversity and access to water, afforestation, programs to prevent child labour, grants for agricultural research or training to help farmers grow non-tobacco crops. We expect this type of CSI to complement our own agricultural, environmental and biodiversity conservation practices.

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

Empowerment focuses on giving people training, education and opportunities to help them develop. Examples include scholarships and IT training or programs supporting small businesses and promoting entrepreneurship. Our companies also continue to make other important contributions to meet local needs, such as relief efforts after natural disasters or AIDS prevention. Following the Asian tsunami, British American Tobacco p.l.c. donated over £1 million to communities in Sri Lanka and Indonesia.



## G3 Social Performance Indicators

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
LABOUR PRACTICES AND DECENT WORK					
Employment					
LA1	Total workforce by employment type, employment contract, and region.	Full time	308	298	284
		Employment contract	68	64	70
		Temporary agency workers	430	346	308
		National on secondment overseas	17	17	16
		Secondies within the country	5	4	5
LA2	Total number and rate of employee turnover by age group, gender, and region	The employee turnover of the company in 2010 was 3.9%. 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	-15	-10	-14
		Total turnover	25	7	11
		Rate of turnover	8.1	2.4	3.9
		Employee turnover by age			
			2008	2009	2010
		20-25	2	3	0
		26-30	5	2	3
		31-35	2	2	2
		36-40	-	0	1
		41-45	4	0	2
		46-50	1	0	2
		51-55	10	0	1
>55	1	0	0		
Employee turnover by gender					
	2008	2009	2010		
M	24	6	8		
F	1	1	3		

GRI	Indicator	Performance																															
		GRI Description	2008	2009	2010																												
LABOUR PRACTICES AND DECENT WORK																																	
Employment																																	
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																															
Labour/Management Relations																																	
LA4	Percentage of employees covered by collective bargaining agreements	Only the non-executive workforce is covered by collective agreement and currently, 100% of the non-executive workforce is covered. Percentage of the employees covered by collective agreement compared with the total number of employees is,	36.0%	37.5%	35.2%																												
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.	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.																															
Occupational health and safety																																	
LA6	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.	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.																															
LA7	Rate of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	<table><thead><tr><th></th><th>2008</th><th>2009</th><th>2010</th></tr></thead><tbody><tr><td>For the year</td><td>0</td><td>0</td><td>0</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></tbody></table>		2008	2009	2010	For the year	0	0	0	Rate of injury	Nil	Nil	Nil	No. of lost working days	Nil	Nil	Nil	No. of work related fatalities	Nil	Nil	Nil	Occupational disease	Nil	Nil	Nil	Absenteeism	Nil	Nil	Nil			
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GRI	Indicator	Performance																											
		GRI Description	2008	2009	2010																								
Occupational health and safety																													
LA8	Education, training, counselling, prevention and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	The company conducts training and awareness programs for our employees about serious diseases like Swine Flu, HIV, Dengue and Heart disease. The company distributes leaflets with information related to the above issues amongst employees.																											
LA9	Health and safety topics covered in formal agreements with trade unions.	Union members are in our safety committees and health committees. But we do not have any formal agreement with trade unions on health and safety.																											
Training and Education																													
LA10	Average hours of training per year per employee by employee category.	<div>The training provided to the employees by the Company in the year 2009 is as follows,</div> <table><thead><tr><th></th><th>2008</th><th>2009</th><th>2010</th></tr></thead><tbody><tr><td>Average hours of training per employee for the entire company</td><td>34</td><td>27.7</td><td>49.23</td></tr><tr><td>Management</td><td>41</td><td>28.6</td><td>31.6</td></tr><tr><td>Executives</td><td>19</td><td>23.7</td><td>12.7</td></tr><tr><td>Admin co-ordinators</td><td>N/A</td><td>N/A</td><td>N/A</td></tr><tr><td>Technicians/ Multi skilled operators</td><td>42</td><td>31</td><td>103.4</td></tr></tbody></table>					2008	2009	2010	Average hours of training per employee for the entire company	34	27.7	49.23	Management	41	28.6	31.6	Executives	19	23.7	12.7	Admin co-ordinators	N/A	N/A	N/A	Technicians/ Multi skilled operators	42	31	103.4
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LA11	Programs for skills management and lifelong learning that support the continued employability	<div>The company has a policy “To energise employees to reach greater heights of performance and to ensure that they have the capability and skills, and are inspired to achieve our vision”. All training at CTC is non-binding and includes, assistance for self-learning through the Self Study Assistance Scheme and Learning Centre, Professional Membership and Business Awareness and Programs for all employees.</div> <div>The following training programs took place during the year 2010.</div> <div><div>1.</div><div>7 Habits</div></div> <div><div>2.</div><div>Assessor Skills Training Program</div></div> <div><div>3.</div><div>License to Hire</div></div> <div><div>4.</div><div>Introduction to Labour Law</div></div> <div><div>5.</div><div>SQUARE Program</div></div> <div><div>6.</div><div>Presentation Skills Workshop</div></div> <div>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.</div>																											

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LA12	Percentage of employees receiving regular performance and career development reviews.	All employee performances are reviewed annually - Management cadre - Career Development / Career Succession Planning reviews are conducted once a year through the Talent Review Process - Executive cadre - talent review process is conducted once a year. - Non-executive - performance 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.	<p>Employee per category according to gender</p> <table><tr><td></td><td>Management</td><td>Executives</td><td>Clerical</td><td>Shop Floor</td></tr><tr><td>M</td><td>94</td><td>77</td><td>11</td><td>80</td></tr><tr><td>F</td><td>16</td><td>6</td><td>0</td><td>0</td></tr></table> <p>Employee per category according to age</p> <table><tr><td></td><td>Management</td><td>Executives</td><td>Clerical</td><td>Shop Floor</td></tr><tr><td>20-25</td><td>5</td><td>21</td><td>0</td><td>0</td></tr><tr><td>26-30</td><td>30</td><td>14</td><td>0</td><td>2</td></tr><tr><td>31-35</td><td>13</td><td>7</td><td>0</td><td>11</td></tr><tr><td>36-40</td><td>18</td><td>6</td><td>0</td><td>6</td></tr><tr><td>41-45</td><td>7</td><td>11</td><td>0</td><td>7</td></tr><tr><td>46-50</td><td>19</td><td>11</td><td>6</td><td>35</td></tr><tr><td>51-55</td><td>18</td><td>13</td><td>4</td><td>19</td></tr><tr><td>55&lt;</td><td>0</td><td>0</td><td>1</td><td>0</td></tr></table> <p>Employee per category according to service</p> <table><tr><td></td><td>Management</td><td>Executives</td><td>Clerical</td><td>Shop Floor</td></tr><tr><td>0-5</td><td>40</td><td>44</td><td>0</td><td>10</td></tr><tr><td>6-10</td><td>22</td><td>8</td><td>0</td><td>10</td></tr><tr><td>11-15</td><td>12</td><td>5</td><td>0</td><td>2</td></tr><tr><td>16-20</td><td>3</td><td>6</td><td>0</td><td>11</td></tr><tr><td>21-25</td><td>7</td><td>3</td><td>0</td><td>14</td></tr><tr><td>26-30</td><td>22</td><td>15</td><td>8</td><td>29</td></tr><tr><td>&gt;31</td><td>4</td><td>2</td><td>3</td><td>4</td></tr></table>					Management	Executives	Clerical	Shop Floor	M	94	77	11	80	F	16	6	0	0		Management	Executives	Clerical	Shop Floor	20-25	5	21	0	0	26-30	30	14	0	2	31-35	13	7	0	11	36-40	18	6	0	6	41-45	7	11	0	7	46-50	19	11	6	35	51-55	18	13	4	19	55<	0	0	1	0		Management	Executives	Clerical	Shop Floor	0-5	40	44	0	10	6-10	22	8	0	10	11-15	12	5	0	2	16-20	3	6	0	11	21-25	7	3	0	14	26-30	22	15	8	29	>31	4	2	3	4
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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 2 : 3																																																																																																							



GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
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 Company entered into agreements 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 the contracts.			
HR3	Total hours 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 a 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 no employee will 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 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 Company's "crop to consumer" process.			

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Forced and Compulsory Labour					
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	<p>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.</p> <p>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.</p>			
Security Practices					
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to the operations.	<p>We have not trained our security personnel specifically on human rights. However, all inquiries and disciplinary matters are dealt within the statutory labor 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.</p> <p>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 assisting in inquiries carried out by the Employers' Federation of Ceylon (EFC) in keeping with all aspects of human rights.</p>			
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.	<p>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 assess and manage the impact of operations on society at large.</p> <p>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.</p> <p>Keys stakeholder engagement is now embedded into the corporate DNA thus all concerns are reviewed and necessary actions taken.</p>			

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Corruption					
SO2	Percentage and total number of business units analysed for risks related to corruption.		100%	100%	100%
			Risk based audits have been carried out in areas of Marketing, Finance, Supply Chain and procurement		
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 2008, 2009 and 2010			
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 can 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
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 <a href="http://www.bat.com">www.bat.com</a>			

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
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)			
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 NATA Act. Under this law CTC does not engage in advertising, promotions or brand sponsorships.  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 on the enhanced voluntary Code. Other stakeholders were informed through media campaigns.			
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



GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
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

## Environmental Sustainability

Environment sustainability is a high priority for all modern day corporates and is no exception to Ceylon Tobacco Company.

We are conscious that through our operations there might be risks to the environment in which we operate. Due to this factor we have implemented many initiatives where we have a good understanding of the impact to the environment and under the environmental sustainable section we have reported key indicators which we have monitored for several years and reported on the immediate past 3 years for our stakeholder information.

Through this monitoring system each year we set ourselves targets to continuously improve on the indicators to be more environmental friendly.

Some of the key initiatives taken by CTC to reduce the impact to the environment are, energy efficient lighting systems and making use of day light; with the support of our 15,000 farmer network and the 9,000 families under flagship CSR project we have been in a position to grow over 6.1 million trees during the past 10 years. We have also been in a position to grow vegetables and fruit trees through our 9,000 families under the Sustainable Agriculture Development Project which has also helped to make Sri Lanka greener.

CTC also is conducting research with the University of Peradeniya, in Matale district, on how a Mono-culture eucalyptus forest could be converted to an indigenous natural forest improving the Bio-diversity. This project commenced in 2005 and collected data is been shared with the interested stakeholders.

## G3 Environmental Performance Indicators

GF	Indicator	Performance			
		GRI Description	2008	2009	2010
Materials					
EN1	Materials used by weight or volume	Total materials used tonnes	5,617	4,913	5,278
		Tonnes per million cigarettes equivalent produced	1.17	0.55	0.56
		Leaf tonnes	3,701	3,305	3,554
		Direct material tonnes	1,796	1,608	1,724
		Indirect material tonnes	120	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)	36,485	41,826	42,571
		Gj million cigarettes equivalent	7.59	4.66	4.52
		Total site and office direct energy Gj	32,955	33,174	36,269
		Other vehicles energy consumption Gj	1,063	5,074	2,665
		Trade marketing fleet energy Gj	2,466	3,579	3,637
		Trade marketing fleet energy per million cig sold Gj	0.56	0.85	0.84
EN4	Indirect energy consumption by primary source	Total energy Gj	42,285	37,953	45,992
		Gj million cigarettes equivalent	8.80	4.23	4.88
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)	5,964,105	5,924,142	5,891,600
		Savings(Gj)	(706)	(302)	(450)

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Energy (Contd)					
			2008 Initiatives - Optimized 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 chillier tank ball valve - Replaced cooling condenser at CTS - GA160 complete overhaul on compressor at 40,000 hours  2010 initiatives - Induction street lamps - LED lightings in the reception - PMD skylight project - New service compressor project for SMD		
Water					
EN8	Total water withdrawal by source	Total water withdrawal (m3)	45,802	49,610	49,838
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	6.37	10.4	14.96
		Total volume of water recycled (m3)	2,920	3,675	4,520
			Treated waste water is used for watering plants. Average usage of treated water for gardening and washing purposes per working day is 5 cubic meters.		



GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
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  This lease expired in December 2010 and steps have been taken to hand over the blocks back to the Government.		
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 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 the forests blocks located in Matale, Badulla, Nuwara Eliya and Kandy districts (452 hectares). CTC, through there farmer network have grown over 6.2 million trees during the past 10 years.		

GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Bio-Diversity					
EN14	Strategies, current actions, and future plans for managing impact on biodiversity		In 2004 together with our parent company British American Tobacco (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 five years we have collected important research data, how a monoculture Eucalyptus plantations could be converted in to natural forests enriched with Biodiversity. We have shared the research data with interested stakeholders which will help to finds solutions for the Eucalyptus issues 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		The company has not yet conducted any kind of research to identify the species that are affected by the company's operations. CTC in 2010 commence a new process namely Bio Diversity Risk Assessment which will help to identify any areas affected by our operations.		
Emissions, Effluents and Waste					
EN16	Total direct and indirect greenhouse gas emissions by weight	CO2 Emission tones	3,875	4,053	4,316
		CO2 Emission tones per million cigarettes produced	0.81	0.46	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 hand 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.		

GRI	Indicator	Performance																																																																																																																																																																																											
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Emissions, Effluents and Waste																																																																																																																																																																																													
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	NO, SO, and other significant air emissions by type and weight	<div>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</div> <table><tr><td>TA</td><td>SO2</td><td>NO2</td><td>CO</td><td>O3</td><td>Pb</td><td>SPM</td></tr><tr><td>24</td><td>0.08</td><td>0.10</td><td>-</td><td>-</td><td>0.002</td><td>0.30</td></tr><tr><td>8</td><td>0.12</td><td>0.15</td><td>10</td><td>-</td><td>-</td><td>0.35</td></tr><tr><td>1</td><td>0.20</td><td>0.25</td><td>30</td><td>0.20</td><td>-</td><td>0.50</td></tr></table> <div>For the year 2008</div> <table><tr><td></td><td>TA</td><td>SO2</td><td>NO2</td><td>CO</td><td>O3</td><td>Pb</td><td>SPM</td></tr><tr><td rowspan="3">L1</td><td>24</td><td>0.030</td><td>0.029</td><td>2.0</td><td>-</td><td>0.0001</td><td>0.078</td></tr><tr><td>8</td><td>0.082</td><td>0.052</td><td>2.0</td><td>-</td><td>-</td><td>0.116</td></tr><tr><td>1</td><td>0.132</td><td>0.094</td><td>5.0</td><td>0.005</td><td>-</td><td>0.200</td></tr><tr><td rowspan="3">L2</td><td>24</td><td>0.020</td><td>0.035</td><td>2.0</td><td>-</td><td>0.0001</td><td>0.107</td></tr><tr><td>8</td><td>0.051</td><td>0.057</td><td>3.0</td><td>-</td><td>-</td><td>0.120</td></tr><tr><td>1</td><td>0.088</td><td>0.070</td><td>5.0</td><td>0.008</td><td>-</td><td>0.163</td></tr></table> <div>For the year 2009</div> <table><tr><td></td><td>TA</td><td>SO2</td><td>NO2</td><td>CO</td><td>O3</td><td>Pb</td><td>SPM</td></tr><tr><td rowspan="3">L1</td><td>24</td><td>0.029</td><td>0.033</td><td>2</td><td>-</td><td>&lt;0.001</td><td>0.068</td></tr><tr><td>8</td><td>0.043</td><td>0.046</td><td>4</td><td>-</td><td>-</td><td>0.098</td></tr><tr><td>1</td><td>0.069</td><td>0.072</td><td>5</td><td>0.003</td><td>-</td><td>0.109</td></tr><tr><td rowspan="3">L2</td><td>24</td><td>0.021</td><td>0.029</td><td>3</td><td>-</td><td>&lt;0.001</td><td>0.089</td></tr><tr><td>8</td><td>0.033</td><td>0.03</td><td>4</td><td>-</td><td>-</td><td>0.106</td></tr><tr><td>1</td><td>0.072</td><td>0.090</td><td>6</td><td>0.002</td><td>-</td><td>0.126</td></tr></table> <div>For the year 2010</div> <table><tr><td></td><td>TA</td><td>SO2</td><td>NO2</td><td>CO</td><td>O3</td><td>Pb</td><td>SPM</td></tr><tr><td rowspan="3">L1</td><td>24</td><td>0.030</td><td>0.031</td><td>2</td><td>-</td><td>0.0001</td><td>0.071</td></tr><tr><td>8</td><td>0.052</td><td>0.048</td><td>3</td><td>-</td><td>-</td><td>0.112</td></tr><tr><td>1</td><td>0.075</td><td>0.081</td><td>5</td><td>0.003</td><td>-</td><td>0.108</td></tr><tr><td rowspan="3">L2</td><td>24</td><td>0.021</td><td>0.030</td><td>2</td><td>-</td><td>0.0001</td><td>0.096</td></tr><tr><td>8</td><td>0.045</td><td>0.041</td><td>3</td><td>-</td><td>-</td><td>0.108</td></tr><tr><td>1</td><td>0.076</td><td>0.078</td><td>5</td><td>0.004</td><td>-</td><td>0.130</td></tr></table>				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		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		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		TA	SO2	NO2	CO	O3	Pb	SPM	L1	24	0.030	0.031	2	-	0.0001	0.071	8	0.052	0.048	3	-	-	0.112	1	0.075	0.081	5	0.003	-	0.108	L2	24	0.021	0.030	2	-	0.0001	0.096	8	0.045	0.041	3	-	-	0.108	1	0.076	0.078	5	0.004	-	0.130
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GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Emissions, Effluents and Waste					
EN21	Total water discharge by quality and destination	Total volume of water discharged (m3)	9,210	14,278	19,644
			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 discharge 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)	48	132	84
		BOD level at the beginning of the year (mg/l)	06	18	17
EN22	Total weight of waste by type and disposal method	Total amount of waste generated tonnes	741	803	877
		Tonnes per million cigarette equivalent produced	0.15	0.09	0.09
			Waste from the Kandy leaf department is sent to a compost project. Since May 2007 waste from the factory in Colombo is 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 in 2004 – 2010.		
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 organization's discharge of water and runoff		CTC discharge water in to the municipal water drainage system.		



GRI	Indicator	Performance			
		GRI Description	2008	2009	2010
Products and Services					
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation		Our 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 their packaging materials that are reclaimed by category		100% of the products are sold none of the packing materials are reclaimed.		
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 organization's operations, and transporting members of the workforce		CTC continuously focussed 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 are used to 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.		

## 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. The Company's corporate governance framework is directed towards achieving the Company's key business objectives in a manner which is responsible and in accordance with high standards of honesty, transparency and accountability. These principles are reflected in our Standards of Business Conduct, which are reviewed from time to time to ensure that they remain at the forefront of best business practices. 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 page 19. 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. All Directors make a formal declaration of all their interests on annual basis and 3 Non-Executive Directors have been declared by the Board as Independent Non-Executive Directors as per corporate governance best practice rule 7.10.4 of continuing listing requirements of CSE.

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

### Board Committees

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

#### Nominations Committee:

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

#### Audit Committee:

The role of the Audit Committee is to support the Board of the Company and the relevant Regional Audit Committee in discharging their responsibilities as they relate to the management of business risks, internal control and compliance and the conduct of business in accordance with the Standards of Business Conduct of British American Tobacco PLC (BAT) and integrity of financial statements. Please refer page 113 for the Report of Audit Committee.

**Remuneration & 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 115 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.

**Standards of Business Conduct:**

Operating under the guidance of Standard of Business Conduct (standards) for a number of years, the Company has been embedded the standards in to daily functioning of the organization using clear, relevant and consistent communication channels to all employees across the organization from shop floor to the Board. Addressing areas such as whistleblowing, personal and business integrity, public contributions, corporate assets and financial integrity, national and international trade the code demands compliance at all levels through sign-off from each and every employee. The Whistleblowing procedure enables the staff to raise their concerns whilst ensuring confidentiality.

**Compliance Control:**

Self-assessment against policies and key controls is the usual practice at CTC. Policies relating to rights and privileges of personnel, 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 scrutinized and categorized in a manner in which each department is able to ascertain which legal requirements are specific and relevant to their operations. The compliance is also signed-off by legal department. This ensures compliance at the operational level, minimizing the need to reverse engineer the compliance function. A checklist of regulatory payments such as Employees' Provident Fund (EPF), Employees' Trust Fund (ETF), Excise and sales related taxes is tabled for review as a part of the Audit Committee process.

**Risk Review & Management:**

The risk profile of the Company is collated centrally, through sub processes of risk review with the

Heads of Functions taking ownership for risk management. (This process is further explained in the section on Risk management) Each Function has a set of defined key controls, now established in the form of a checklist (Control Navigator) some of which are fundamental whilst others are of basic importance. Each Head of Function is responsible for ensuring that there is compliance against these key controls. This will be the norm or the minimum

standard that must be followed by operational staff, self-assessed by senior management and independently checked by audit periodically.

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

## Attendance at Board and Board Committee Meetings

Name	Board	Audit Committee	Nominations Committee	Remuneration & Board Compensation Committee	CSR Committee
Mr. Jayampathi Bandaranayake *	04/04+		01/01+	01/01+	02/02+
Mr. Mustanser Ali Khan	04/04	02/02^	01/01	01/01^	02/02
Mr. James Yamanaka (appointed w.e.f.1/1/2011)					
Mr. Vijaya Malalasekara *	04/04				02/02
Desamanya Deva Rodrigo **	04/04	02/02+		01/01	
Mr. Susantha Ratnayake **	03/04	01/02	01/01	01/01	01/02
Mr. Mobasher Raza *	02/04				
Mr. Ariyaratne Hewage **	04/04				02/02
Mr. Bruce Jalleh (Retired w.e.f. 27.08.2010)	03/04	01/01^		01/01^	02/02
Mr. Atif Hasan (Appointed w.e.f. 27.08.2010)	01/04	01/01^			
Mr. Mark Drain ***		02/02			
Mr. Shaiful Bahari ***					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	Applicable section in the Annual Report
7.10.1(a)	Non-Executive Directors	At least 1/3 of the total number of Directors should be Non-Executive Directors	Compliant	Report on Corporate Governance on page 96
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Report on Corporate Governance on page 96
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non independence	Compliant	Report on Corporate Governance on page 96
7.10.3(a)	Disclosure relating to Directors	a. The Board shall make a determination annually as to the independent or non independence of each Non Executive Director  b. Names of independent Directors should be disclosed in the Annual Report"	Compliant	Report on Corporate Governance on page 96  Section of Board of Directors on page 19
7.10.3(b)	Disclosure relating to Directors	In the event a Director does not qualify as independent, but if the Board is of the opinion that the Director is nevertheless independent, shall specify the criteria not met and the basis for the determination in the Annual Report	Not Applicable	No such determination has been made by the Board as all three Independent Directors met the criteria as per rule 7.10.4
7.10.3(c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Section of Board of Directors on page 19.
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 provide to the CSE.	Compliant	Section of Board of Directors on page 19.
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Report of Remuneration Committee on page 115.
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Report of Remuneration Committee on page 115.

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.5(b)	Report of Remuneration Committee on page 115	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Report of Remuneration Committee on page 115
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 b. Statement of remuneration policy c. Aggregate remuneration paid to Executive & Non Executive Directors"	Compliant  Compliant  Compliant	Report on Corporate Governance on page 96  Report of Remuneration Committee on page 115  Note 10 to Financial Statements
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of Audit Committee on page 113
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body"	Compliant  Compliant  Compliant	Report of Audit Committee on page 113
7.10.6(b)	Audit Committee Functions	Overseeing of the, (i) Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards. (ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	Report of Audit Committee on page 113

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(b)	Audit Committee Functions	<p>(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.</p> <p>(iv) Assessment of the independence and performance of the external auditors.</p> <p>(v) Make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	Report of Audit Committee on page 113
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	<p>a. Names of Directors comprising the Audit Committee</p> <p>b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination</p> <p>c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions"</p>	<p>Compliant</p> <p>Compliant</p> <p>Compliant</p>	Report of Audit Committee on page 113

## Other Directorships of Directors

Name of the Director	Name of the Company	Position held
J. D. Bandaranayake	Board of Investments Sri Lanka Hayleys PLC Finlays PLC Sampath Bank PLC Hotel Services Ceylon PLC	Chairman Director Director Director Director
Mustanser Ali Khan (retired w.e.f. 31.12.2010)	British American Tobacco SAA Services (Private) Limited CTC Services Limited CTC Leaf Exports Limited Advent International Limited	Director  Director Director Director
V. P. Malalasekera	Carson Cumberbatch PLC Bogala Graphite Lanka PLC Ascot Holdings PLC Ascot Developments (Pvt) Ltd Boston Capital (Pvt) Limited Taprobane Holdings Limited	Director Chairman/Director Chairman/Director Chairman/Director Chairman/Director Director
Atif Hasan	CTC Services Limited	Director
Desamanya P. D. Rodrigo	John Keells Holdings PLC Stanley & Davidson Property Holdings (Pvt) Ltd Chevron Lubricants Lanka PLC	Director Director and Owner  Director
Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mobasher Raza	Pakistan Tobacco Company Limited	Director/CFO
Ariyaratne Hewage	-	-



## Financial Review

### Economic Landscape

2010 was a milestone year for Sri Lanka which marked a clear turn in the direction and the maturity of the economy. In the year of land marks, the latter part of the year was the most important with His Excellency launching the country in new direction with a reform based developmental budget.

The economy grew robustly with a clear increase in consumer and overall wealth with inflation kept in check at around 6% and the economy showing signs of growing at above 7%. The opening up of and development of the North and East along with the government's keen drive for the uplift of the rural areas and increase in FDI, provided a firm impetus and trajectory to the economy.

The stability has also resulted in a tourist boom which along with a warming economy has had a positive impact on many a consumer businesses including ours, with our volumes remaining firm in 2010.

### Market overview

The tobacco market remained stable with the continued efforts of Government in keeping the illicit in check with 2016 seizures of over 74 mn sticks valued at over Rs. 1.2 bn in the market.

CTC was among the first FMCG's to open up for business in the North and East with investments in trade and distribution. The expansion helped broaden the distribution width and help support the local economy.

We also continued to invest behind our key brands, Gold Leaf (JPGL) and Dunhill. JPGL was the focus of the biggest activity, undergoing a complete pack change to rejuvenate and consolidate its image as a modern and contemporary brand. The activity was a resounding success, with the brand performing well on all key parameters. Our premium offer Dunhill also offered a modern 12's pack as a Limited Edition, performing well and getting good consumer feedback.

The aforementioned, growing economy along with an opening of the North and East has helped keeping the CTC volumes and the overall market stable through the year.

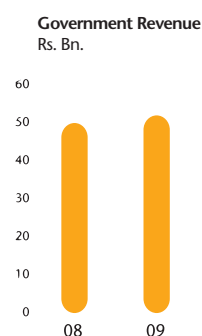
The price increases remained above inflation with two Excise led price increases, keeping the Sri Lankan tobacco market as one of most expensive in the Asia Pacific region.

### Government Revenue

CTC continues to remain one of the largest contributors to the exchequer, giving a total of Rs. 56bn in revenues which stood at around 8% of the total revenue collected. The stable volumes along with two excise led price increases helped increase the revenue by Rs. 3.7bn from 2009.

The budget proposals in November 2010 resulted in simplification of the tax structure; however the total incidence remained the same, with the corporate tax growing up from 35% to 40%.

While the growth in the Government revenue remains robust, illicit trade continues to be the single biggest threat in delivering growth in taxes in the future.

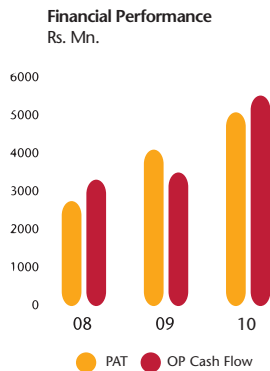


### Financial Performance

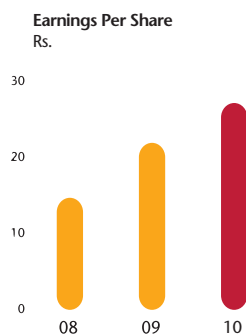
CTC delivered solid growth and performance driven by stable volumes continued productivity initiatives and price increases.

Gross Turnover to grew to Rs. 63.5bn with the Profit after tax growing to Rs. 5.1bn, furthermore it was converted well into Cash flow through astute

working capital management with a Cash Flow standing at Rs. 5.5bn.

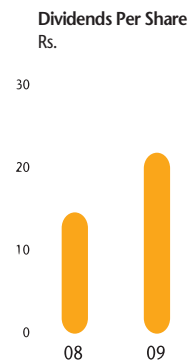


The Profit delivery was also driven by CTC's continued drive to improve productivity, enhancing spend effectiveness and effective cost control. This not only helps offset the effects of inflation but also helped the company ensure investment in key areas of Social Responsibility, its brands and people.



### Shareholder Value

In line with the robust financial performance CTC continued to deliver strong returns to the shareholder with the proposed Final Dividend at Rs. 7.22 per share taking the total Dividends per share to Rs. 27.17 up by 24% vs. last year.



The CTC share performance has also been strong and supported by a buoyant CSE stood at Rs 355 a share, a 92% increase vs. last year. The dividend yield subsequently also remains a healthy 7.65 % made stronger with a stable outlook on company performance.

**Atif Hasan**  
Finance Director

31st January 2011

## Risk Management

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

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 Organizations (COSO) and the Institute of Risk Management (IRM) Frameworks to reflect BAT's requirements for risk.

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

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

Committee, reviews the approach taken for risk management and for business continuity.

### Risk Management Process

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

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.

### Assessment and Evaluation

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

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

### Risk Response and Managing of Individual Risks

Identified and assessed risks should be managed by the risk owner. Mitigation action plans will be

developed by the risk owner and the Risk Management Committee. This includes the timelines for implementation of the mitigation plans for successful mitigation of the risk.

### Monitoring

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

Key foreseeable risks faces by the Company are;

#### Illicit Trade

High price 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 high price of legal cigarettes as a result of excise and taxes.

#### Regulations

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

#### Increased cost base

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

### Crisis Management and Business Continuity Plans (BCPs)

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

### Risk Management and Internal Audit

Business Audit Methodology, which is the internal audit methodology adopt by the Group draws a clear link between risk management and internal audit. The internal audit plan is derived using the risk register of the Company mainly focusing 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 Mindedness, Freedom through responsibility and Enterprising Spirit which collectively express the culture and framework in building the right control environment that currently exists.

To be effective internal control must:

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

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

- Efficiency and effectiveness of operations
- The assets of the Company are protected against unauthorized use or disposition
- Reliability of financial and other management information

- The prevention of fraud
- Compliance with relevant national laws and company regulations

Within this framework, each Head of Function has the responsibility for establishing and operating detailed control procedures within their functions. A checklist of Key Controls (Control Navigator) is available for each department. This checklist provides fundamental controls that are essential to 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 authorization processes enables the Board to exercise better control over the strategic, financial, investment and organizational issues.
- The Company presents the financial results to its shareholders on a quarterly basis.

The Board has delegated the process of reviewing the effectiveness of the internal controls to the Audit Committee. The Audit Committee, whose functions are described in the Corporate Governance Statement and the Report of the Audit Committee, met twice during 2010. 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, audit issues on completion of statutory audit including Control Navigator results are presented at these meetings.

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



**James Yamanaka**  
Managing Director &  
Chief Executive Officer



**Atif Hasan**  
Finance Director

31st January 2011

## Report of the Directors

The Directors have great pleasure in presenting their Report to the members for the year ended 31st December 2010, 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 2010.

### • GROUP RESULTS FOR THE YEAR 2010 & APPROPRIATIONS

	Rs.000's	Rs.000's	Rs.000's
Retained profit as at 1st January 2010			1,471,103
Current year's profit after charging all expenses and providing for all known liabilities		5,097,103	

### Dividends

Dividends declared of Rs. 25.65 per share on the Issued Share Capital of 187,323,751 shares

2009 Final Dividend - Rs. 5.70 per share paid on 31/03/10

First Interim dividend - Rs. 3.30 per share paid on 26/05/10

Second Interim dividend - Rs. 5.90 per share paid on 26/08/10

Third Interim dividend - Rs. 5.00 per share paid on 30/11/10

Fourth Interim dividend - Rs. 5.75 per share paid on 21/01/11

• Net dividend	4,325,737		
• Dividend Tax	479,117	(4,804,854)	292,249
Write back of unclaimed dividends			2,541
Balance carried forward to 2011			1,765,893

Interim dividends of Rs. 3,737 million have been paid from current year company profits after tax of Rs. 5,097 million.

The directors recommend the payment of a final dividend from current year company profits of Rs. 7.22 per share less tax for 2010 subject to approval by the Shareholders at the forthcoming Annual General Meeting on 29th March 2011. 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. 191 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. 20 million on Corporate Social Responsibility activities and this includes Rs.10.1 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)

	2010	2009	Growth %
No of Shares	187,323,751	187,323,751	-
Earnings per share - Rs.	27.21	21.97	24.0
Net assets per share - Rs.	19.51	17.93	9.0
Market price per share - Rs.	355.00	185.00	92.0
Price earnings ratio	13.05	8.42	54.9
Dividends per share - Rs.	27.17	21.90	24.1
Dividend yield %	7.65	11.84	-35.4

### DIRECTORATE

The names of the Directors are disclosed in Page 19 of the Annual Report.

### DIRECTORS PROPOSED FOR RE-ELECTION

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

Atif Hasan and James Hideo Yamanaka who were appointed to the Board of Directors since the last Annual General Meeting also retire and being eligible, be proposed for re-election, in terms of the Articles of Association of the Company.

In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9th November 2009), Vijaya Prasanna Malalasekera (who attained the age of 65 years on 11 August 2010) and Desamanya Parakrama Devasiri Rodrigo (who attained the age of 65 years on 14 July 2010) retires at the conclusion of the Annual General Meeting, but seeks re-election as Directors of the Company notwithstanding their age, in terms of notices dated 10 January 2011 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, Vijaya Prasanna Malalasekera and Desamanya Parakrama Devasiri Rodrigo and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage, Vijaya Prasanna Malalasekera and Desamanya Parakrama Devasiri Rodrigo.

### 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	2010	2009
J. D. Bandaranayake	178,335	178,335
V. P. Malalasekera	7,564	7,564
Susantha Ratnayake	644	410
Total	186,543	186,309

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 Management Discussions & Analysis.

## RESERVES

Total Group reserves as at 31st December 2010 amount to Rs. 1,781 million comprising Capital Reserves of Rs. 15 million and Revenue Reserves of Rs. 1,766 million. Movements are shown in the Statement of Changes in Equity in the financial statements. This does not include the final dividend of Rs.1,352 million.

## MAJOR SHAREHOLDINGS

The 20 major shareholders and percentages are disclosed on page 144.

## EMPLOYEE SHARE OWNERSHIP PLANS

The Group has no share ownership plans as at 31st December 2010. 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.



**James Yamanaka**  
Managing Director &  
Chief Executive Officer



**Atif Hasan**  
Finance Director

31st January 2011

## 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. 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; and
- ii. 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.

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

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

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

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

The Directors are also responsible for taking reasonable steps to safeguard the assets of the Company and of the Group and in this regard to give proper consideration to the establishment of

appropriate internal control systems with a view to preventing and detecting fraud and other irregularities.

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

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

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

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

### Compliance Report

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



**James Yamanaka**  
Managing Director &  
Chief Executive Officer



**Atif Hasan**  
Finance Director

31st January 2011



# Report of the Audit Committee

## The Role of the Audit Committee

The role of the Audit Committee, which has specific terms of reference, is described in the CTC Corporate Governance report on pages from 96 to 98.

## 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 a BAT Subsidiary overseas who is independent of executive functions of CTC. The Chairman of the Committee is a fellow member of the Institute of Chartered Accountants of Sri Lanka and former senior partner of PricewaterhouseCoopers, Sri Lanka.

The members of the Audit Committee as at 31st December 2010, who held office during the whole of the year, were;

Desamanya Deva Rodrigo,  
Mr. Susantha Ratnayake, and  
Mr. Mark Drain.

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

Terms of reference of the Audit Committee, approved by the Board, are in line with BAT policy. The responsibilities and objectives of the Committee are as follows;

### 1. Financial Statements

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

### 2. Internal Control and Business Risks

Review the effectiveness of the internal controls over financial reporting, compliance with legal

and regulatory requirements and business risk systems of the Company.

### 3. Internal Audit

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

### 4. External Audit

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

## Meetings

The Committee met two times during the year. Attendance by the committee members at each of these meetings is given in the table on page 98 of the Annual Report. All the invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

## Activities

The Committee carried out the following activities:

### Managing Risks

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

### Internal Audit

The Committee approved the internal audit plan for 2010 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 2010 including the audit scope.

The Management Letter issued by the External Auditors to report matters which arose during the course of their audit and the management response thereto was reviewed and implementation of their recommendations was monitored by the Committee. The letter of representation issued to the external Auditor was also reviewed by the Committee.

The Audit Committee reviewed the effectiveness of the external auditor 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 2011. The Audit Committee also reviewed the fees payable, Non-Audit Services provided, the independence monitoring procedures of the Auditor.

### Financial Reporting

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

### Good Governance

A Statement of Business Conduct (SOBC) is submitted each year by management to the

Group, to identify and report incidents of non-compliance and whistle blowing incidents. The Committee was satisfied that all whistle blowing incidents have been investigated, action taken where necessary and incidents of non compliance have not adversely affected "Good Governance" policies and status of the Company. The Committee also reviewed the Loss Reports and regularly monitored compliance with laws and regulations.

### Audit Committee Effectiveness

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

### Appreciation

The Committee records its appreciation of the services rendered by the external auditors and staff of the internal audit, finance and risk management functions in assisting the Company to maintain high standards in the conduct of business, manage internal control and business risks and to prepare and present financial statements in conformity with accounting standards and best practice. The valuable inputs provided by the each person who completed the Audit Committee effectiveness survey are acknowledged with thanks.



**Desamanya Deva Rodrigo**

Chairman,  
Audit Committee.

31st January 2011

### Members

Susantha Ratnayake, Mark Drain

## Remuneration and Board Compensation Committee Report

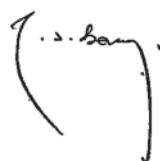
The Board Compensation Committee of the company recommends to the main board independent, objective and defensible decisions on all matters associated with remuneration and benefits and other terms of service of Directors, Managers & Executives so that remuneration policy at all times constitutes a competitive advantage in terms of attracting and retaining top quality personnel.

In formulating the recommendations the committee ensures that:

- A process is in place for regular surveys of remuneration and benefits, with a sufficient sample of comparator companies to obtain a reliable measure of the market.
- Remuneration systems offer the opportunity of excellent reward for excellent performance
- Examines reward packages as a whole, seeking overall competitiveness
- Remuneration packages are at all times fully compliant with local taxation and legal requirements
- An effective system of job evaluation process is in place

The Board Compensation Committee met on one occasion during the year 2010.

In reviewing the above the main focus this year was in ensuring that increments were awarded with greater emphasis on performance & retaining the high potential employees of the company. The line managers of functions were given more responsibility in deciding the distribution of the increments within their functions whilst keeping within the agreed total spend on remuneration and benefits.



**Jayampathi Bandaranayake**  
Chairman  
Board Compensation Committee

31st January 2011

# Independent Auditors' Report



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

### Report on the Financial Statements

We have audited the accompanying financial statements of Ceylon Tobacco Company PLC (the "Company"), the consolidated financial statements of the Company and its subsidiaries as at 31st December 2010 which comprise the balance sheet as at 31st December 2010, 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 118 to 141 of this Annual Report.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the

financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

### Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st December 2010 and the financial statements give a true and fair view of the Company's state of affairs as at 31st December 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st December 2010 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 shareholders of the Company.

### Report on Other Legal and Regulatory Requirements

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

**CHARTERED ACCOUNTANTS**  
Colombo, Sri Lanka.

31st January 2011

# financial statements



## Income Statement

For the year ended 31st December	Note	Group		Company	
		2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
Gross revenue	8	63,523,824	58,079,487	63,523,824	58,079,487
Government levies	8	(49,902,112)	(45,725,572)	(49,902,112)	(45,725,572)
<b>Net revenue</b>	8	<b>13,621,712</b>	<b>12,353,915</b>	<b>13,621,712</b>	<b>12,353,915</b>
Other operating income	9	36,323	92,616	36,323	92,616
Raw materials used		(2,278,996)	(2,387,250)	(2,278,996)	(2,387,250)
Employee benefits expenses	10	(1,030,468)	(1,235,340)	(1,030,468)	(1,235,340)
Depreciation and amortisation expenses		(197,293)	(202,479)	(197,293)	(202,479)
Other operating expenses		(2,214,118)	(2,002,829)	(2,214,116)	(2,002,929)
Net interest income	11	260,141	416,353	260,141	416,353
Profit before income tax	10	8,197,301	7,034,986	8,197,303	7,034,886
Income tax expense	12	(3,100,199)	(2,920,374)	(3,100,199)	(2,920,374)
<b>Profit after tax (PAT)</b>		<b>5,097,103</b>	<b>4,114,612</b>	<b>5,097,105</b>	<b>4,114,512</b>
<b>Attributable to</b>					
Equity holders		5,097,103	4,114,612		
Minority		-	-		
<b>Profit after tax (PAT)</b>		<b>5,097,103</b>	<b>4,114,612</b>		
Basic earnings per share (Rs.)	13	27.21	21.97	27.21	21.96

The above income statements are to be read in conjunction with Notes to the financial statements on pages 122 to 141.

## Balance Sheet

		Group		Company	
As at 31st December		2010	2009	2010	2009
	Note	Rs.000s	Rs.000s	Rs.000s	Rs.000s
<b>Assets</b>					
<b>Non-current assets</b>					
Property, plant & equipment	14	1,564,738	1,531,612	1,564,738	1,531,612
Intangible assets	15	12,314	20,383	12,314	20,383
Investments in subsidiaries	16	-	-	500	500
Receivables	17.1	178,127	197,203	178,127	197,203
<b>Total non-current assets</b>		<b>1,755,179</b>	<b>1,749,198</b>	<b>1,755,679</b>	<b>1,749,698</b>
<b>Current assets</b>					
<b>Inventories</b>	18	<b>2,561,866</b>	<b>2,324,552</b>	<b>2,561,866</b>	<b>2,324,552</b>
Trade & other receivables	17.2	1,334,607	926,094	1,336,472	927,789
Cash and cash equivalents	19	6,633,408	5,766,250	6,632,928	5,765,938
<b>Total current assets</b>		<b>10,529,881</b>	<b>9,016,896</b>	<b>10,531,266</b>	<b>9,018,279</b>
<b>Total assets</b>		<b>12,285,060</b>	<b>10,766,094</b>	<b>12,286,945</b>	<b>10,767,977</b>
<b>Equity and liabilities</b>					
<b>Equity</b>					
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		1,765,893	1,471,103	1,767,778	1,472,986
<b>Total equity attributable to equity holders</b>		<b>3,654,131</b>	<b>3,359,341</b>	<b>3,656,016</b>	<b>3,361,224</b>
<b>Non-current liabilities</b>					
Provision for employee benefits	21	4,258	5,209	4,258	5,209
Deferred tax liabilities	22	199,940	130,354	199,940	130,354
<b>Total non-current liabilities</b>		<b>204,198</b>	<b>135,563</b>	<b>204,198</b>	<b>135,563</b>
<b>Current liabilities</b>					
Trade and other payables	23	5,413,660	4,902,629	5,413,660	4,902,629
Current tax liabilities	24	1,870,497	1,312,524	1,870,497	1,312,524
Dividends payable	25.1	1,077,111	992,816	1,077,111	992,816
Unclaimed dividends	25.2	57,608	42,452	57,608	42,452
Bank overdraft	19	7,855	20,769	7,855	20,769
<b>Total current liabilities</b>		<b>8,426,731</b>	<b>7,271,190</b>	<b>8,426,731</b>	<b>7,271,190</b>
<b>Total liabilities</b>		<b>8,630,929</b>	<b>7,406,753</b>	<b>8,630,929</b>	<b>7,406,753</b>
<b>Total equity and liabilities</b>		<b>12,285,060</b>	<b>10,766,094</b>	<b>12,286,945</b>	<b>10,767,977</b>
<b>Net assets per share</b>		<b>19.51</b>	<b>17.93</b>	<b>19.52</b>	<b>17.94</b>


The above balance sheets are to be read in conjunction with Notes to the financial statements on pages 122 to 141.

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



Atif Hasan  
Finance Director

On behalf of the Board of Directors,



James Yamanaka  
Managing Director & Chief Executive Officer  
Colombo



Atif Hasan  
Finance Director

31st January 2011

# Cash Flow Statement

	Group		Company	
For the year ended 31st December	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>Cash flows from operating activities</b>				
Cash generated from operations (refer A)	8,015,544	6,618,757	8,015,376	6,619,204
Interest paid	(3,908)	(2,183)	(3,908)	(2,183)
Income taxes paid	(2,472,640)	(3,101,152)	(2,472,640)	(3,101,152)
Gratuity paid	(951)	(1,110)	(951)	(1,110)
Net cash from operating activities	5,538,045	3,514,312	5,537,877	3,514,759
<b>Cash flows from investing activities</b>				
Purchase of Property, Plant & Equipment	(223,378)	(188,666)	(223,378)	(189,304)
Purchase of intangible assets	(807)	(13,410)	(807)	(13,410)
Proceeds from disposal of Property, Plant & Equipment	2,506	4,301	2,506	4,301
Interest received	266,568	418,536	266,568	418,536
Net cash from investing activities	44,889	220,761	44,889	220,123
<b>Cash flows from financing activities</b>				
Dividends paid	(4,702,862)	(3,327,064)	(4,702,862)	(3,327,064)
Net cash used in financing activities	(4,702,862)	(3,327,064)	(4,702,862)	(3,327,064)
<b>Net increase in cash &amp; cash equivalents</b>	<b>880,072</b>	<b>408,009</b>	<b>879,904</b>	<b>407,818</b>
Cash & cash equivalents at the beginning of the year	5,745,481	5,337,472	5,745,169	5,337,351
<b>Cash &amp; cash equivalents at the end of the year (Note 19)</b>	<b>6,625,553</b>	<b>5,745,481</b>	<b>6,625,073</b>	<b>5,745,169</b>
<b>A. Cash generated from operations</b>				
Profit before income tax	8,197,301	7,034,986	8,197,303	7,034,886
Depreciation expenses	188,417	189,401	188,417	189,401
Amortisation expenses	8,876	13,078	8,876	13,078
Interest income	(264,049)	(418,536)	(264,049)	(418,536)
Interest expense	3,908	2,183	3,908	2,183
Property, Plant & Equipment and Intangible assets write off	1,814	44,291	1,814	44,291
Provision for obsolete inventories and doubtful debts	13,738	28,787	13,738	28,787
Profit on disposal of Property, Plant & Equipment	(2,484)	(3,943)	(2,484)	(3,943)
Operating profit before working capital changes	8,147,521	6,890,247	8,147,523	6,890,147
(Increase)/Decrease in inventories	(242,644)	274,508	(242,644)	274,508
Increase in trade & other receivables	(400,365)	(37,558)	(400,535)	(37,220)
Increase/(Decrease) in trade & other payables	511,032	(508,440)	511,032	(508,231)
	8,015,544	6,618,757	8,015,376	6,619,204

The above cash flow statements are to be read in conjunction with Notes to the financial statements on pages 122 to 141.

## Statement of Changes in Equity

### Group (Rs'000)

	Note	Stated Capital	Capital Reserve	Retained Earnings	Total
Balance as at 1st January 2009		1,873,238	15,000	787,999	2,676,237
Profit for the year		-	-	4,114,612	4,114,612
Interim 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
Profit for the year		-	-	5,097,103	5,097,103
Interim Dividends	25	-	-	(4,804,854)	(4,804,854)
Write back of unclaimed dividends	25.2	-	-	2,541	2,541
<b>Balance as at 31st December 2010</b>		<b>1,873,238</b>	<b>15,000</b>	<b>1,765,893</b>	<b>3,654,131</b>

### Company (Rs'000)

	Note	Stated Capital	Capital Reserve	Retained Earnings	Total
Balance as at 1st January 2009		1,873,238	15,000	789,982	2,678,220
Profit for the year		-	-	4,114,512	4,114,512
Interim 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
Profit for the year		-	-	5,097,105	5,097,105
Interim Dividends	25	-	-	(4,804,854)	(4,804,854)
Write back of unclaimed dividends	25.2	-	-	2,541	2,541
<b>Balance as at 31st December 2010</b>		<b>1,873,238</b>	<b>15,000</b>	<b>1,767,778</b>	<b>3,656,016</b>

The above statements of changes in equity are to be read in conjunction with Notes to the financial statements on pages 122 to 141.

# 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 2010 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 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 31st January 2011.

## 3 BASIS OF MEASUREMENT

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

### 3.1 FUNCTIONAL AND PRESENTATION CURRENCY

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

## 4 USE OF ESTIMATES AND JUDGEMENTS

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

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

Information about assumptions and estimation uncertainties that have a significant effect on the amounts recognised in the financial statements are described in 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 cash generating unit (CGU) is impaired. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell.

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

### 4.2 EMPLOYEE RETIREMENT BENEFITS

The liability as at balance sheet date was actuarially valued based on the assumptions set out in Note 21.1.

## 5 COMPARATIVE INFORMATION

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



## 6 SIGNIFICANT ACCOUNTING POLICIES

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

### 6.1 BASIS OF CONSOLIDATION

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

Company	Status
Ceylon Tobacco Company PLC	Going concern
<b>Subsidiaries</b>	
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. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

**Outreach Projects (Guarantee) Ltd**  
Ceylon Tobacco Company PLC

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

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

### 6.2 FOREIGN CURRENCY TRANSLATIONS

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

### ASSETS AND BASIS OF THEIR VALUATION

### 6.3 PROPERTY, PLANT AND EQUIPMENT

#### 6.3.1 Recognition and measurement

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

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

### 6.3.2 Subsequent costs

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

### 6.3.3 Depreciation

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

	Depreciation %	Residual value %
Freehold buildings	2 ½	2 ½
Leasehold buildings	over the lease period	-
Building improvements	10	-
Plant & machinery	7	-
Furniture, fittings & canteen equipment	20	10
Office equipment & House equipment	20	10
Computer equipment	20	-
Computer equipment (w.e.f. 01/01/2010)	33 <sup>1/3</sup>	-
Vehicles & accessories, 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 that is not integral to the functionality of the related equipment, and can be, clearly identified, measured reliably and future economic benefits are probable, are included in the balance sheet under the category Intangible Assets and carried at cost less accumulated amortisation and accumulated impairment losses.

### 6.4.2 Subsequent expenditure

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

### 6.4.3 Amortisation

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

Computer Software	20%
Computer Software (w.e.f 01/01/2010)	33 1/3%

## 6.5 INVESTMENTS

### Investment in Subsidiary

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

## 6.6 TRADE AND OTHER RECEIVABLES

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

## 6.7 INVENTORIES

Inventories are measured at the lower of cost or net realisable value after making due allowance for slow moving and obsolete items, on a basis consistently applied from year to year. Cost has been arrived at using the weighted average method. The value of raw materials includes the cost of leaf processed by the Company's leaf operations and wrapping material cost. The values of the work-in-progress consist of only the raw materials in progress. The values of finished goods reflect the cost of manufacture, and all other stocks are included under the category of consumables. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

## 6.8 CASH & CASH EQUIVALENTS

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

## 6.9 IMPAIRMENT

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

## LIABILITIES AND PROVISIONS

## 6.10 DIVIDENDS

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

## 6.11 EMPLOYEE BENEFITS

### 6.11.1 Defined benefit plan – Retirement Gratuity

A defined benefit plan is a post employment benefit plan other than a defined contribution plan. As required by the Sri Lanka Accounting Standards 16 (Revised 2006) - Employee Benefits ("SLAS 16"), the Company (the subsidiary does not have employees) applies the actuarial valuation method to contribute for Retirement Gratuity and has funded by way of insurance policy for retirement gratuities based on 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

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. 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.

**Short-term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be measured reliably.

**6.12 PROVISION**

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

**INCOME STATEMENT****6.13 REVENUE****6.13.1 Goods Sold and Services Rendered**

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

**6.13.2 Interest Income**

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

**6.14 EXPENSES****6.14.1 Operating Lease Payments**

Payments made under operating leases are recognised in the income statements

on a straight-line basis over the lease period.

**6.14.2 Interest and Other Expense**

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

**6.15 INCOME TAX EXPENSE**

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

**6.15.1 CURRENT TAX**

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

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

**6.15.2 DEFERRED TAX**

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

Deferred tax assets, including those related to tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be

utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **6.16 SEGMENT REPORTING**

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

#### **6.18 RELATED PARTY TRANSACTIONS**

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

#### **6.19 CASH FLOW STATEMENT**

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

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

New accounting standards issued and existing standards revised by the Institute of Chartered Accountants of Sri Lanka upto November 2010, which will become effective for annual financial statements on or after January 2012 have not been applied in preparing these financial statements.

The impact of adopting these new and revised standards has not yet been determined by the Company.



	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>8 NET REVENUE</b>				
Local revenue	63,475,104	58,034,943	63,475,104	58,034,943
Export revenue	48,720	44,544	48,720	44,544
Gross revenue	63,523,824	58,079,487	63,523,824	58,079,487
Government levies*				
- Excise special provision tax	42,070,677	38,681,429	42,070,677	38,681,429
- Tobacco tax	31,811	22,035	31,811	22,035
- Social responsibility levy	559,276	580,226	559,276	580,226
- Value added tax	6,813,022	6,141,337	6,813,022	6,141,337
- Turnover tax	191	687	191	687
- Nation building levy	427,135	299,858	427,135	299,858
Total Government levies	49,902,112	45,725,572	49,902,112	45,725,572
Net revenue	13,621,712	12,353,915	13,621,712	12,353,915

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

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>9 OTHER OPERATING INCOME</b>				
Gain on transaction/translation of foreign currency	-	84,905	-	84,905
Profit on disposal of Property, Plant & Equipment	2,484	3,943	2,484	3,943
Sundry sales/gains	33,839	3,768	33,839	3,768
	36,323	92,616	36,323	92,616

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

	Group		Company	
	2010	2009	2010	2009
	Rs.000s	Rs.000s	Rs.000s	Rs.000s
Depreciation expenses	188,417	189,401	188,417	189,401
Amortisation expenses	8,876	13,078	8,876	13,078
Non - Executive Directors' fees	9,661	9,589	9,661	9,589
Auditors' remuneration				
(a) Audit fee & expenses	2,880	2,631	2,880	2,631
(b) Audit related services fee & expenses	618	530	618	530
(c) Non audit services	2,234	2,297	2,234	2,297
Legal fees	14,265	4,427	14,265	4,427
Administrative expenses	555,928	479,411	555,928	479,411
Donations & CSR expenses	20,319	120,652	20,319	120,652
Technical & Advisory fees	283,378	306,748	283,378	306,748
Property, Plant & Equipment write off	1,814	43,463	1,814	43,463
Intangible assets write off	-	828	-	828
Provision for obsolete inventories	5,329	(27,298)	5,329	(27,298)
Provision for doubtful debts	8,409	56,085	8,409	56,085
Employee benefits expenses (Note 10.1)	1,030,468	1,235,340	1,030,468	1,235,340

**10.1 Employee benefits expenses**

Executive Directors' emoluments	75,598	56,504	75,598	56,504
Salaries & wages	836,854	703,722	836,854	703,722
Gratuity contribution*	-	227,667	-	227,667
Provision for Voluntary Separation Scheme	49,269	182,543	49,269	182,543
Contribution to Employees' Provident Fund	57,209	54,003	57,209	54,003
Contribution to Employees' Trust Fund	11,538	10,901	11,538	10,901
	1,030,468	1,235,340	1,030,468	1,235,340

\* The planned assets of the qualified insurance policy exceeded the gratuity obligation, which resulted in a surplus, based on the actuarial valuation as at 31st December 2010. Accordingly no contribution was made during the year.

	Group		Company	
	2010	2009	2010	2009
	Rs.000s	Rs.000s	Rs.000s	Rs.000s
<b>11 NET INTEREST INCOME</b>				
Interest income	264,049	418,536	264,049	418,536
Interest expense	(3,908)	(2,183)	(3,908)	(2,183)
	260,141	416,353	260,141	416,353

## 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	
	2010	2009	2010	2009
	Rs.000s	Rs.000s	Rs.000s	Rs.000s
Current tax expense				
Income tax on profit	3,030,613	3,036,195	3,030,613	3,036,195
Deferred tax expense/ (income)				
Origination and reversal of temporary differences (Note 22)	69,586	(115,821)	69,586	(115,821)
Income tax expense	3,100,199	2,920,374	3,100,199	2,920,374

Reconciliation of effective tax rate and the actual tax rate

	Group		Company	
	2010	2009	2010	2009
	%	%	%	%
Actual tax rate	35.00	35.00	35.00	35.00
Disallowable expenses	4.63	9.60	4.63	9.60
Allowable expenses	(2.99)	(1.18)	(2.99)	(1.18)
Income exempt from income taxes	(0.21)	(0.85)	(0.21)	(0.85)
Deferred tax charge/ (reversal)	0.85	(1.65)	0.85	(1.65)
Others	0.54	0.58	0.54	0.58
Effective tax rate	37.82	41.50	37.82	41.50

	Group		Company	
	2010	2009	2010	2009
	Rs.000s	Rs.000s	Rs.000s	Rs.000s
Tax effect based on normal tax rate (35%)	2,869,056	2,462,958	2,869,056	2,462,958
Tax effect on disallowable expenses	380,094	458,576	380,094	458,576
Tax effect on allowable expenses	(245,159)	(113,178)	(245,159)	(113,178)
Income exempt from Income taxes	(16,883)	(30,365)	(16,883)	(30,365)
Tax effect on rate differentials	(1,283)	(1,154)	(1,283)	(1,154)
Social Responsibility levy	44,787	41,653	44,787	41,653
(Over)/ Under provision	-	217,706	-	217,706
	3,030,613	3,036,195	3,030,613	3,036,195

## 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	
	2010	2009	2010	2009
Profit attributable to shareholders (Rs.'000)	5,097,103	4,114,612	5,097,105	4,114,512
Weighted average number of ordinary shares	187,323,751	187,323,751	187,323,751	187,323,751
Basic earnings per share (EPS) - Rs.	27.21	21.97	27.21	21.96

**14 PROPERTY, PLANT & EQUIPMENT**

Group	Freehold Land	Freehold Buildings	Building Improvements	Leasehold Buildings	Machinery/ Equipment *	Motor Vehicles	2010 Rs.000s	2009 Rs.000s
<b>Cost</b>								
Balance as at 1st January	98,575	327,750	42,790	33,064	2,689,714	92,402	3,284,295	3,111,651
Additions	-	-	1,833	-	168,647	19,600	190,080	300,003
Disposals	-	-	-	-	(125)	(218)	(343)	(3,576)
Adjustments	(945)	945	-	-	-	-	-	-
Write off	-	(10,247)	-	(1,781)	(9,305)	-	(21,333)	(123,783)
Balance as at 31st December	97,630	318,448	44,623	31,283	2,848,931	111,784	3,452,699	3,284,295
<b>Depreciation</b>								
Balance as at 1st January	-	204,056	16,331	30,765	1,548,998	68,920	1,869,070	1,763,207
Charge for the year	-	4,937	4,294	225	170,436	8,525	188,417	189,401
Disposals	-	-	-	-	(125)	(196)	(321)	(3,218)
Adjustments	-	-	-	-	-	-	-	-
Write off	-	(9,491)	-	(1,330)	(8,699)	-	(19,520)	(80,320)
Balance as at 31st December	-	199,502	20,625	29,660	1,710,610	77,249	2,037,646	1,869,070
Net book value before work-in-progress as at 31st December	97,630	118,946	23,998	1,623	1,138,321	34,535	1,415,053	1,415,225
Capital work-in-progress at cost	-	-	-	-	149,685	-	149,685	116,387
<b>Carrying amount</b>								
Net book value as at 31st December 2010	97,630	118,946	23,998	1,623	1,288,006	34,535	1,564,738	
Net book value as at 31st December 2009	98,575	123,694	26,459	2,299	1,257,103	23,482		1,531,612

Company	Freehold Land	Freehold Buildings	Building Improvements	Leasehold Buildings	Machinery/ Equipment *	Motor Vehicles	2010 Rs.000s	2009 Rs.000s
<b>Cost</b>								
Balance as at 1st January	98,575	327,749	42,790	33,064	2,689,714	92,402	3,284,294	3,108,346
Additions	-	-	1,833	-	168,647	19,600	190,080	300,003
Disposals	-	-	-	-	(125)	(218)	(343)	(3,576)
Adjustments	(945)	945	-	-	-	-	-	3,304
Write off	-	(10,247)	-	(1,781)	(9,305)	-	(21,333)	(123,783)
Balance as at 31st December	97,630	318,447	44,623	31,283	2,848,931	111,784	3,452,698	3,284,294
<b>Depreciation</b>								
Balance as at 1st January	-	204,056	16,331	30,765	1,548,997	68,920	1,869,069	1,760,540
Charge for the year	-	4,937	4,294	225	170,436	8,525	188,417	189,401
Disposals	-	-	-	-	(125)	(196)	(321)	(3,218)
Adjustments	-	-	-	-	-	-	-	2,666
Write off	-	(9,491)	-	(1,330)	(8,699)	-	(19,520)	(80,320)
Balance as at 31st December	-	199,502	20,625	29,660	1,710,609	77,249	2,037,645	1,869,069
Net book value before work-in-progress as at 31st December	97,630	118,945	23,998	1,623	1,138,322	34,535	1,415,053	1,415,225
Capital work-in-progress at cost	-	-	-	-	149,685	-	149,685	116,387
<b>Carrying amount</b>								
Net book value as at 31st December 2010	97,630	118,945	23,998	1,623	1,288,007	34,535	1,564,738	
Net book value as at 31st December 2009	98,575	123,694	26,459	2,299	1,257,103	23,482		1,531,612

\* 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 Improvements	Leasehold Buildings	Machinery/ Equipment *	Motor Vehicles	2010 Rs.000s	2,009 Rs.000s
Fully depreciated assets which are still in use are as follows								
Cost 2010	-	112,727	-	25,740	698,098	72,843	909,408	
Cost 2009	-	121,845	-	25,740	489,485	52,083		689,153

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



**15 INTANGIBLE ASSETS**

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>Cost</b>				
Balance as at 1st January	94,706	82,775	94,706	82,775
Additions	807	13,410	807	13,410
Write Off	-	(1,479)	-	(1,479)
Balance as at 31st December	95,513	94,706	95,513	94,706
<b>Amortisation</b>				
Balance as at 1st January	74,323	61,896	74,323	61,896
Charge for the year	8,876	13,078	8,876	13,078
Write Off	-	(651)	-	(651)
Balance as at 31st December	83,199	74,323	83,199	74,323
Net book value as at 31st December	12,314	20,383	12,314	20,383

\* Intangible assets represent all computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 6.4

**16 INVESTMENTS IN SUBSIDIARIES**

			Company	
	Share Holding %	No of Shares	2010 Rs.000s	2009 Rs.000s
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.

**17 RECEIVABLES**

Receivables shown in the balance sheet include the following

**17.1 Staff loans**

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
Balance as at 1st January	225,293	211,050	225,293	211,050
Loans granted	66,249	80,009	66,249	80,009
Loans recovered	(87,435)	(65,766)	(87,435)	(65,766)
Balance as at 31st December	204,107	225,293	204,107	225,293
Receivable within one year*	(25,980)	(28,090)	(25,980)	(28,090)
Receivable after one year	178,127	197,203	178,127	197,203

\* 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. 35 employees have been granted loans during the year (2009 - 55 employees).

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>17.2 Trade &amp; other receivables</b>				
Trade receivables	1,172,721	749,544	1,172,721	749,544
Other receivables	211,028	123,007	209,807	122,380
Interest receivable	2,982	5,501	2,982	5,501
Receivables from subsidiary	-	-	3,086	2,322
Advances to farmers	19,953	113,576	19,953	113,576
Provision for doubtful debts (Note 17.3)	(72,077)	(65,534)	(72,077)	(65,534)
	1,334,607	926,094	1,336,472	927,789
<b>17.3 Provision for doubtful debts</b>				
Balance as at 1st January	65,534	11,040	65,534	11,040
Provision made during the year	8,409	56,085	8,409	56,085
Write off	(1,866)	(1,591)	(1,866)	(1,591)
Balance as at 31st December	72,077	65,534	72,077	65,534
<b>18 INVENTORIES</b>				
Raw materials	1,541,395	1,258,500	1,541,395	1,258,500
Work-in-progress	24,591	23,806	24,591	23,806
Finished goods	884,433	815,171	884,433	815,171
Consumables	234,941	345,240	234,941	345,240
Provision for obsolete consumables (Note 18.1)	(123,494)	(118,165)	(123,494)	(118,165)
	2,561,866	2,324,552	2,561,866	2,324,552
<b>18.1 Provision for obsolete inventories</b>				
Balance as at 1st January	118,165	145,463	118,165	145,463
Provision/(reversal) during the year	5,329	(27,298)	5,329	(27,298)
Balance as at 31st December	123,494	118,165	123,494	118,165
<b>19 CASH &amp; CASH EQUIVALENTS</b>				
Cash in hand & bank balances	119,267	152,356	118,787	152,044
Short term investments*	6,514,141	5,613,894	6,514,141	5,613,894
Cash & cash equivalents	6,633,408	5,766,250	6,632,928	5,765,938
Bank overdraft	(7,855)	(20,769)	(7,855)	(20,769)
Cash and cash equivalents in the cash flow statement	6,625,553	5,745,481	6,625,073	5,745,169

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

**20 STATED CAPITAL**

	<b>2010</b> <b>Rs.000s</b>	<b>2009</b> <b>Rs.000s</b>
Issued & fully paid capital as at 1st January (187,323,751 ordinary shares)	<b>1,873,238</b>	1,873,238
Balance as at 31st December (187,323,751 ordinary shares )	<b>1,873,238</b>	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. 4.2 million is not funded and has been provided for in the books of the Company.

	<b>Group</b>		<b>Company</b>	
	<b>2010</b> <b>Rs.000s</b>	<b>2009</b> <b>Rs.000s</b>	<b>2010</b> <b>Rs.000s</b>	<b>2009</b> <b>Rs.000s</b>
Balance as at 1st January	<b>5,209</b>	6,319	<b>5,209</b>	6,319
Gratuity paid	<b>(951)</b>	(1,110)	<b>(951)</b>	(1,110)
Balance as at 31st December	<b>4,258</b>	5,209	<b>4,258</b>	5,209

Subsequent to 1992, the externally funded policy purchased from Aviva NDB Insurance PLC, covers 315 staff attached to the Company. The plan is fully funded by a policy obtained from AVIVA NDB Insurance PLC (Formally known as Eagle Insurance PLC). During the year the policy was amended to satisfy the definition of a "qualifying insurance policy" as set out in Sri Lanka Accounting Standard 16 (revised 2006) Employee Benefits.

The premium paid by the Company is recognised as expense in the Income Statement.

An actuarial valuation was carried out as at 5th January 2011 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).

As at balance sheet date, the plan assets amounted to Rs. 894 million and the defined benefit obligation amounted to Rs. 892 million which resulted in a net surplus of Rs.1.5 million.

As the said surplus is within 10% corridor described in Note 6.11.1, it has not been recognised in these financial statements.

**21.1 Actuarial assumptions**

Principal actuarial assumptions at the reporting date,	<b>2010</b> <b>%</b>	<b>2009</b> <b>%</b>
Discount rate at 31st December	<b>8.2</b>	9.0
Expected return on plan assets at 1st January	<b>9.5</b>	9.5
Future salary increases	<b>15.0</b>	15.0
The overall expected long-term rate of return on assets	<b>9.5</b>	9.5

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

Pension paid to past Directors in 2010 amounted to Rs. 2.03 million (2009- Rs. 2.1 million) and other pensioners Rs. 14 million (2009- Rs. 13.1 million).

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>22 DEFERRED TAXATION</b>				
Balance as at 1st January	130,354	246,175	130,354	246,175
Origination and reversal of temporary differences (Note 12)	69,586	(115,821)	69,586	(115,821)
Balance as at 31st December	199,940	130,354	199,940	130,354
Deferred tax liabilities				
Property, Plant & Equipment	216,934	223,544	216,934	223,544
Intangible assets	2,346	3,132	2,346	3,132
	219,280	226,676	219,280	226,676
Deferred tax assets				
Retiring gratuity	(1,490)	(1,823)	(1,490)	(1,823)
Employee compensation	(17,850)	(94,499)	(17,850)	(94,499)
Net deferred tax liabilities	199,940	130,354	199,940	130,354
<b>23 TRADE &amp; OTHER PAYABLES</b>				
Trade payables	32,613	142,759	32,613	142,759
Other payables including				
Government levies	4,344,174	3,182,374	4,344,174	3,182,374
Accruals	877,083	1,407,529	877,083	1,407,529
Payable to Group entities (Note 23.1)	159,790	169,967	159,790	169,967
	5,413,660	4,902,629	5,413,660	4,902,629
<b>23.1 Payable to Group entities</b>				
BAT (UK & Export) Ltd	144,656	118,712	144,656	118,712
BAT Asia Pacific Region Ltd	-	22,657	-	22,657
British American Shared Services	125	24,561	125	24,561
BAT (Malaysia) Berhad	-	4,037	-	4,037
BAT Aspac Service Centre	3,976	-	3,976	-
BAT Singapore	9,024	-	9,024	-
BAT International Europe	400	-	400	-
BAT Bangladesh	1,609	-	1,609	-
	159,790	169,967	159,790	169,967

Also refer Note 26 to the financial statements

<b>24 CURRENT TAXATION</b>				
Balance as at 1st January	1,312,524	1,377,481	1,312,524	1,377,481
Income tax on profit	3,030,613	3,036,195	3,030,613	3,036,195
Income tax paid	(2,472,640)	(3,101,152)	(2,472,640)	(3,101,152)
Balance as at 31st December	1,870,497	1,312,524	1,870,497	1,312,524

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>25 DIVIDENDS PAYABLE</b>				
Balance as at 1st January	992,816	899,154	992,816	899,154
Dividends declared (Note 25.1)	4,804,854	3,433,644	4,804,854	3,433,644
Dividends paid	(4,702,862)	(3,327,064)	(4,702,862)	(3,327,064)
Transfers to unclaimed dividends (Note 25.2)	(17,697)	(12,918)	(17,697)	(12,918)
Balance as at 31st December	1,077,111	992,816	1,077,111	992,816

### 25.1 Dividends declared

Group / Company

2010	2009 Final Paid	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2010 Rs.000s
Dividend per share Rs.	5.70	3.30	5.90	5.00	5.75	25.65
Dividends to Shareholders	961,374	556,572	995,097	843,293	969,400	4,325,737
Tax deducted at source	106,371	61,597	110,113	93,326	107,711	479,117
	1,067,745	618,169	1,105,210	936,619	1,077,111	4,804,854
2009	2008 Final Paid	First Interim Paid	Second Interim Paid	Third Interim Paid	Fourth Interim Declared	2009 Rs.000s
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

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
<b>25.2 Unclaimed dividends</b>				
Balance as at 1st January	42,452	31,670	42,452	31,670
Transfers	17,697	12,918	17,697	12,918
Write back	(2,541)	(2,136)	(2,541)	(2,136)
Balance as at 31st December	57,608	42,452	57,608	42,452

## 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	
			2010 Rs.'000s	2009 Rs.'000s
BAT Singapore	Exports of Cigarettes	BAT Group Co.	48,720	44,544
BAT Singapore	Reimbursement of expenses and import of leaf and printed material	BAT Group Co.	49,232	46,249
BAT International	Import of cigars	BAT Group Co.	1,110	1,716
BAT UK	Technical & Advisory fees	BAT Group Co.	283,378	306,748
ITC Limited	Import of printed material	BAT Associate Co.	5,218	3,269
Anspac Services (Pvt) Ltd	Import of printed materials	BAT Group Co.	2,297	3,521
BAT SAA Services (Pvt) Ltd	Reimbursement of expenses	BAT Group Co.	23,399	16,976
Pakistan Tobacco Company PLC	Reimbursement of expenses	BAT Group Co.	5,188	118,035
BAT (GLP) Limited	Import of leaf	BAT Group Co.	-	291,123
British American Shared Services (BASS)	Information technology related services	BAT Group Co.	67,802	45,392
BAT Asia Pacific Region Ltd	Reimbursement of expenses	BAT Group Co.	114,744	182,591
BAT (Malaysia) Berhad	Reimbursement of expenses	BAT Group Co.	16,562	18,062
BAT Aspac Service Centre	Reimbursement of expenses	BAT Group Co.	39,653	-
BAT Bangladesh Company Ltd	Reimbursement of expenses	BAT Group Co.	1,609	-
BAT Australia	Import of machinery spares	BAT Group Co.	50	-

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

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

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

In addition to their salaries, the Company also provide non-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.

		2010 Rs.'000s	2009 Rs.'000s
<b>J. D. Bandaranayake</b>			
- Sampath Bank PLC	Provision of banking services	81	27
- Hayleys PLC	Provision of industrial, agro and consumer products	19,506	4,605
<b>V. P. Malalasekara</b>			
- Brown & Co PLC (retired w.e.f 31/03/2010)	Purchase of office equipment	2,748	1,055
<b>S. Ratnayake and Desamanya P. D. Rodrigo</b> (in capacity as a Director of John Keells Holdings)			
- John Keells Computer Services (Pvt) limited	Purchase of computer equipment	5,069	8,739
- DHL Keells (Pvt) Limited	Provision of courier services	4,043	5,196
- Jaykay Marketing Services Limited	Provision of marketing services	29,039	17,601
- Habarana Lodge	Provision of leisure services	-	242
- Habarana Walk Inn	Provision of leisure services	-	79
- Trinco Walk Inn Limited	Provision of leisure services	-	168
- Kandy Walk Inn	Provision of leisure services	20	58
- Cinnamon Lakeside- Colombo	Provision of leisure services	8,258	4,981
- Cinnamon Hotels & Resorts (Pvt) Limited	Provision of leisure services	6,074	5,029
- Mackinnons American Express Travel Limited	Management of Air Travel	25,700	19,653
- Keells Hotel Management Services Limited	Provision of leisure services	110	-
- Walkers Tours Limited	Provision of leisure services	333	-
- John Keells Holdings PLC	Provision of leisure services	10,085	-
<b>Mobasher Raza</b>			
- Pakistan Tobacco Company PLC	Purchase of machinery	5,188	118,035

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 2010. (2009 - Nil)

**Other commitments**

The letters of credit, negotiated by the Company as at 31st December 2010 - Rs. 172.4 million (2009 - 46.7 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 (2009 - 500 million)

Guarantees issued to Director-General of Customs in lieu of custom duty payable on clearing consignments Rs. 49.3 million (2009 Rs. 51.5 million)

Guarantees issued to Dynacom Engineering (Pvt) Ltd for the safety of trunking Mobile units Rs. 0.1 million (2009 Rs. 0.1 million)

Shipping Guarantees issued Rs. 15.9 million, for goods cleared before the arrival of original bank documents.

**Outstanding litigation**

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

**30 EMPLOYEE NUMBERS**

The total number of permanent employees of the Group as at 31st December 2010 amounted to 284 (2009 - 298)

**31 SEGMENTAL ANALYSIS**

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

**Geographical analysis of gross revenue**

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
Sri Lanka	63,475,104	58,034,943	63,475,104	58,034,943
Maldives	48,720	44,544	48,720	44,544
	63,523,824	58,079,487	63,523,824	58,079,487

**Geographical analysis of net results (Profit after tax)**

	Group		Company	
	2010 Rs.000s	2009 Rs.000s	2010 Rs.000s	2009 Rs.000s
Sri Lanka	5,090,259	4,108,077	5,090,261	4,107,977
Maldives	6,844	6,535	6,844	6,535
	5,097,103	4,114,612	5,097,105	4,114,512

### 32 POST BALANCE SHEET EVENTS

There were no other material events occurring after the balance sheet date as at 31st December 2010 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. 7.22 per share amounting to Rs. 1,352 million (less tax of approximately 135 million) for the year ended 31st December 2010. This is to be approved at the Annual General Meeting to be held on 29th March 2011. Once approved by the shareholders, the final dividend will be payable on 7th April 2011. In accordance with Sri Lanka Accounting Standard No.12 (Revised) "Events After the Balance Sheet Date", this proposed final dividend has not been recognised as a liability as at 31st December 2010.

As Required by section 56 of the Companies Act No. 7 of 2007, the Board of Directors satisfied the solvency test in accordance with section 57 prior to recommending the final dividend, a statement of solvency completed and duly signed by the Board of Directors on 31st January 2011 has been audited by M/S KPMG Ford Rhodes Thornton & Co

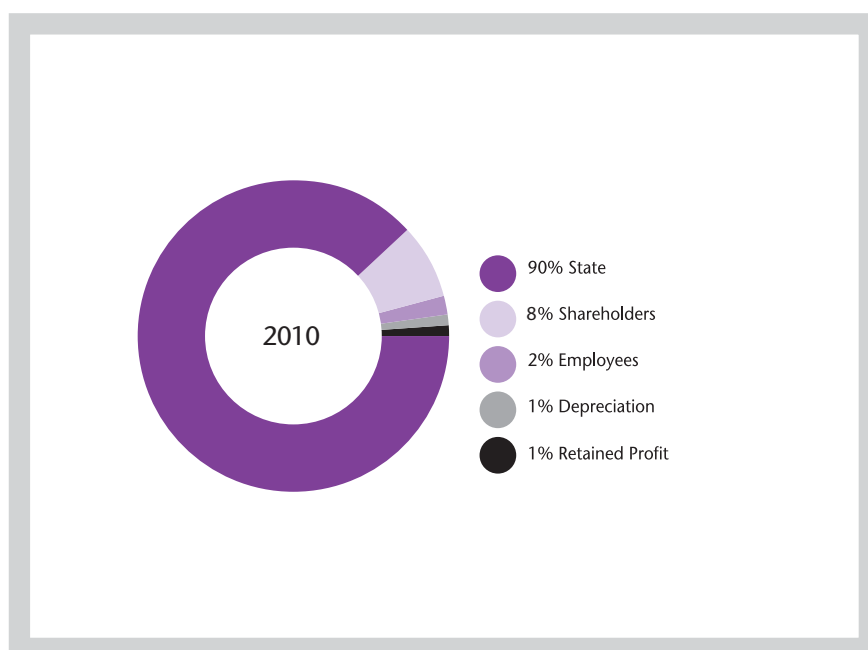
### 33 DIRECTORS RESPONSIBILITY

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

The Statement of Directors' responsibilities is in page 112 of this Annual Report.

## Statement of Value Added

	2010 Rs.000s	2009 Rs.000s
Gross revenue	63,523,824	58,079,487
Supplied materials & services	(4,346,225)	(3,689,922)
Net interest income	260,141	416,353
Other operating income	36,323	92,616
	<b>59,474,064</b>	<b>54,898,534</b>
State	53,149,200	49,346,103
Shareholders	4,804,854	3,433,644
Employees	1,030,468	1,235,340
Depreciation	197,293	202,479
Retained Profit	292,248	680,968
	<b>59,474,064</b>	<b>54,898,534</b>





## Shareholder Information

### Ordinary Shareholding

Stated Share Capital - Rs.

1,873,237,510

Number of shares representing the Entity's stated capital

187,323,751

No of Shareholders as at 31 December 2010

3989 (2009-4037)

### Categorisation of Shareholding

Shareholding Range	Resident			Non Resident			Total		
	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%	No of Shareholders	No of Shares	%
1 - 1000	2,542	675,201	0.36	32	10,505	0.01	2,574	685,706	0.37
1001 - 10,000	1,218	3,476,566	1.86	43	174,996	0.09	1,261	3,651,562	1.95
10,001 - 100,000	111	2,661,014	1.42	23	717,801	0.38	134	3,378,815	1.80
100,001 - 1,000,000	10	2,583,027	1.38	7	2,298,200	1.23	17	4,881,227	2.61
Over 1,000,000	-	-	-	3	174,726,441	93.28	3	174,726,441	93.28
Total	3,881	9,395,808	5.02	108	177,927,943	94.98	3,989	187,323,751	100.00

### Computation of % of Public Shareholding

31 December 2010

31 December 2009

No of Shares

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

178,335

V. P. Malalasekera

7,564

7,564

S. C. Ratnayake

644

410

M. A. Ali Khan (Managing Director & CEO)

-

-

186,543

186,309

#### 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)

186,543

186,309

#### Public Holding

29,546,277

29,546,511

187,323,751

187,323,751

Public Holding as a % of issued number of shares

15.77

15.77

### Institutional and individual shareholders

	No of Shares	%	No of Shareholders	%
Individuals	8,008,256	4.28	3,803	95.34
Institutions	179,315,495	95.72	186	4.66
	187,323,751	100.00	3,989	100.00

## CTC Share performance at Colombo Stock Exchange (CSE)

Reuters' code CTC,CM

Year	2010	2009
No of share transactions for the year	<b>1,759</b>	2,214
No of Shares traded	<b>1,876,000</b>	3,957,800
<b>Price Movements Rs.</b>		
Highest	<b>399.90</b>	193.00
Lowest	<b>191.00</b>	69.00
Closing Price	<b>355.00</b>	185.00
<b>Market Capitalisation (Rs. Mln)</b>	<b>66,500</b>	34,655
Closing Price * Share Capital		

## 20 Largest shareholders as at 31 December 2010

Name	31 December 2010		31 December 2009	
	No of Shares	%	No of Shares	%
1 British American Tobacco Holdings(Sri Lanka) BV	<b>157,590,931</b>	<b>84.13</b>	157,590,931	84.13
2 FTR Holdings SA	<b>15,585,910</b>	<b>8.32</b>	15,585,910	8.32
3 Pershing LLL SA Averbach Grauson & Co.	<b>1,549,600</b>	<b>0.83</b>	1,547,300	0.83
4 Belmont Agents Limited	<b>900,000</b>	<b>0.48</b>	1,000,000	0.53
5 Deutsche Bank AG-National Equity Fund	<b>484,500</b>	<b>0.26</b>	500,000	0.27
6 Pan Asia Banking Corporation/Mr C.N.Rajamoney	<b>405,300</b>	<b>0.22</b>	-	-
7 Aviva NDB Insurance PLC A/c No.7	<b>402,100</b>	<b>0.21</b>	152,700	0.08
8 Mr Yonmerrannage Simon Hewage Indra Kumar Silva	<b>362,200</b>	<b>0.19</b>	362,200	0.19
9 Mrs Jasbinderjit Kaur Piara Singh	<b>290,600</b>	<b>0.16</b>	290,600	0.16
10 RBC Dexia Investor Services Bank S.A.-Vontobel Fund	<b>285,800</b>	<b>0.15</b>	-	-
11 Miss Neesha Harnam	<b>272,300</b>	<b>0.15</b>	252,300	0.13
12 Harnam Holdings SDN BHD	<b>203,900</b>	<b>0.11</b>	203,900	0.11
13 HSBC INTL NOM Ltd - SSBT-DEU	<b>195,600</b>	<b>0.10</b>	195,600	0.10
14 Mr William Ryan Herbert Perera	<b>180,440</b>	<b>0.10</b>	180,440	0.10
15 Aviva NDB Insurance PLC A/c No.3	<b>152,900</b>	<b>0.08</b>	260,000	0.14
16 DFCC Bank A/C NO.1	<b>150,967</b>	<b>0.08</b>	136,467	0.07
17 Mr. Duleep Fairlie George Dalpethado	<b>150,376</b>	<b>0.08</b>	164,676	0.09
18 COCO Lanka PLC	<b>150,000</b>	<b>0.08</b>	170,000	0.09
19 HSBC INTL NOM Ltd - UBS AG - Singapore	<b>150,000</b>	<b>0.08</b>	150,000	0.08
20 Mr Jayampathi Divale Bandaranayake	<b>144,244</b>	<b>0.08</b>	144,244	0.08
Sub Total	<b>179,607,668</b>	<b>95.88</b>	178,887,268	95.50
Balance held by 3967 share holders (2009-4017 shareholders)	<b>7,716,083</b>	<b>4.12</b>	8,436,483	4.50
Total Shares	<b>187,323,751</b>	<b>100.00</b>	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 Eightieth Annual General Meeting of Ceylon Tobacco Company PLC will be held at the Auditorium of Ceylon Tobacco Company PLC, No. 178, Srimath Ramanathan Mawatha, Colombo 15, on Tuesday, 29 March 2011 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 2010 and the Report of the Auditors thereon.
- (ii) To declare a Final Dividend
- (iii) To re-elect Directors.
  - To re-elect Mobasher Raza who comes up for retirement by rotation
  - To re-elect Susantha Ratnayake who comes up for retirement by rotation
  - To re-elect James Yamanaka who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
  - To re-elect Atif Hasan who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.
  - To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association. (refer "A")
  - To re-elect Desamanya Parakrama Devasiri Rodrigo, under Article 86(2) of the Company's Articles of Association. (refer "A")
  - To re-elect Vijaya Prasanna Malalasekera, under Article 86(2) of the Company's Articles of Association. (refer "A")
- (iv) To authorise the Directors to determine and make donations.
- (v) To re-appoint Auditors and to authorise Directors to determine their remuneration.

By Order of the Board



**Dinesh Dharmadasa**  
COMPANY SECRETARY

31st January 2011

- (A) In accordance with the Articles of Association of the Company, Ariyaratne Hewage (who attained the age of 65 years on the 9th November 2009), Vijaya Prasanna Malalasekera (who attained the age of 65 years on 11 August 2010) and Desamanya Parakrama Devasiri Rodrigo (who attained the age of 65 years on 14 July 2010) retires at the conclusion of the Annual General Meeting, but seeks re-election as Directors of the Company notwithstanding their age, in terms of notices dated 10 January 2011 received from the British American Tobacco Holdings (Sri Lanka) BV, the principal shareholder, as presented to the meeting and initialled by the Chairman for purposes of identification, giving notice to the Company of intention to move for the re-election of Ariyaratne Hewage, Vijaya Prasanna Malalasekera and Desamanya Parakrama Devasiri Rodrigo and to specifically declare that the age limit of 65 years referred to in Article 86(2) of the Articles of Association of the Company shall not apply to the said Ariyaratne Hewage, Vijaya Prasanna Malalasekera and Desamanya Parakrama Devasiri Rodrigo and it was resolved that the said re-election be proposed at the ensuing Annual General Meeting.

**NOTES**

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

**IMPORTANT**

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

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

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

N.B.

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



## 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: .....of .....

Whom failing

Jayampathi Divale Bandaranayake

James Yamanaka

Vijaya Prasanna Malalasekera

Atif Hasan

Desamanya Parakrama Devasiri Rodrigo

Susantha Ratnayake

Mobasher Raza

Ariyaratne Hewage

whom failing

whom failing

whom failing

whom failing

whom failing

whom failing

whom failing

as my / our Proxy to represent me / us and \* ..... vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at 10.00 am on Tuesday, 29th March 2011 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 2010.	<input type="checkbox"/>	<input type="checkbox"/>
(ii) To declare a Final Dividend	<input type="checkbox"/>	<input type="checkbox"/>
(lii) To re-elect Mobasher Raza who comes up for retirement by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(iv) To re-elect Susantha Ratnayake who comes up for retirement by rotation	<input type="checkbox"/>	<input type="checkbox"/>
(v) To re-elect James Yamanaka who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association	<input type="checkbox"/>	<input type="checkbox"/>
(vi) To re-elect Atif Hasan who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(vii) To re-elect Ariyaratne Hewage, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(viii) To re-elect Desamanya Parakrama Devasiri Rodrigo, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(ix) To re-elect Vijaya Prasanna Malalasekera, under Article 86(2) of the Company's Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
(x) To authorise the Directors to determine and make donations.	<input type="checkbox"/>	<input type="checkbox"/>
(xi) To re-appoint the Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

.....

Signature

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

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

**Instructions as to completion:**

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to the resolution or make any statement in regard thereto on behalf of any Shareholder.
2. If any Proxy is preferred, delete the names printed, add the name of the Proxy preferred and initial the alteration.
3. Please indicate with an 'X' in the space provided how your Proxy is to vote on each Resolution. If there is in the view of the Proxy holder a doubt (by reason of the way in which the instructions contained in the Proxy have been completed) as to the way in which the Proxy holder should vote, the Proxy holder will vote as he thinks fit.
4. Subject to Note 1 above, if you wish the Proxy to speak at the meeting you should interpolate the words "to speak and" in the place indicated with an asterisk (\*) and initial such interpolation.
5. In the case of a Corporate Member the Form of Proxy must be completed under its Common Seal, which should be affixed and attested in the manner prescribed by the Articles of Association. If Form of Proxy is signed by an Attorney, the relative Power-of-Attorney should also accompany the completed Form of Proxy if it has not already been registered with the Company.
6. To be valid, the completed Form of Proxy should be deposited at the Registered Office of the Company, No. 178, Srimath Ramanathan Mawatha, Colombo 15, before 10.00 am on 27 March 2011.
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

