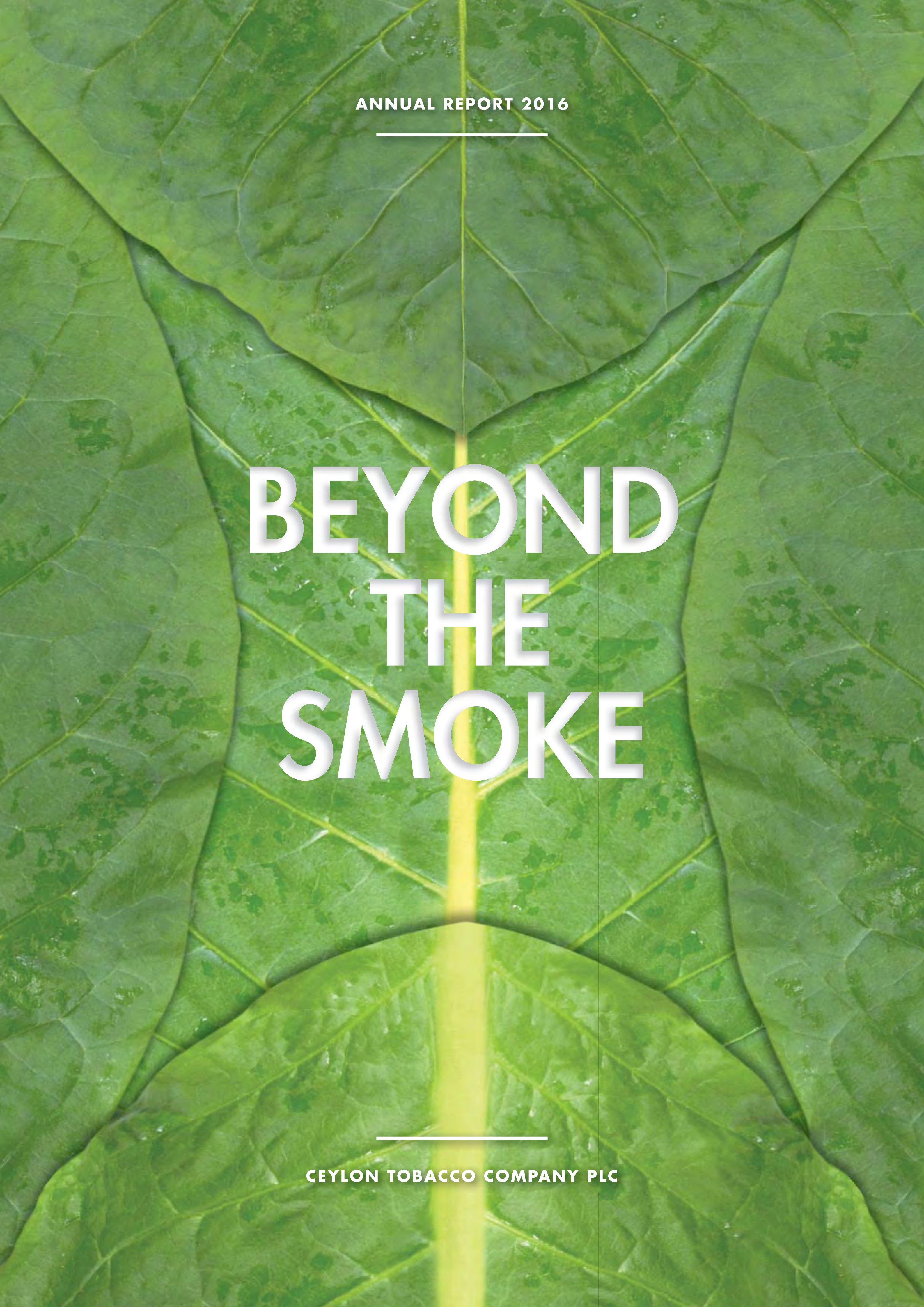
ANNUAL REPORT 2016



BEYOND THE SMOKE

CEYLON TOBACCO COMPANY PLC

ABOUT THIS REPORT

Ceylon Tobacco Company PLC (CTC) first embraced the principles of Integrated Reporting in 2015, and this year we hope to build on the foundation put in place last year to clearly and comprehensively articulate our commitment to creating value for all our stakeholders. As our primary report to stakeholders, this Integrated Annual Report demonstrates the Company's commitment to developing and directing strategy in a manner that balances the competing interests of our stakeholders and provides details on emerging risks and opportunities, successes and challenges in delivering value and our strategies and targets going forward.

SCOPE AND BOUNDARY

The Company's Integrated Report is published annually, and this Report covers it's operations for the period from1 January to 31 December 2016. The boundary of the report extends beyond financial reporting to include non-financial indicators and material issues that may potentially have an impact on our ability to create value. The material issues included herein were selected through a structured and comprehensive process as detailed on pages 64 and 65 of this Report. For sustainability reporting, we have adopted the criteria prescribed by the Global Reporting Initiative (GRI) G4 Framework, building on the previous report for the year ending 31 December 2015.

REPORTING PRINCIPLES AND ASSURANCE

This report has been prepared based on the guidelines of the Integrated Reporting (IR) Framework published by the International Integrated Reporting Council. It also conforms to the reporting requirements of the Companies Act No.7 of 2007, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and the GRI G4 Guidelines. The financial information presented herein is in compliance with the Sri Lanka Financial Reporting Standards, and external assurance on the same has been provided by Messers KPMG (Chartered Accountants).

REPORTING ENHANCEMENTS

We understand that Integrated Reporting is a continuously evolving journey, and this year we have sought to further improve the meaningfulness and readability of our Report through,

- Enhanced connectivity of information through linking the narrative to our strategy and material issues.
- Improved disclosure on the interdependencies and trade-offs of our capital inputs.

FEEDBACK

We value your comments, feedback and suggestions on our Report. For further information, please contact,

Upul Abeywardena
Assistant Company Secretary
Ceylon Tobacco Company PLC
Address: 178, Srimath Ramanathan
Mawatha, Colombo 15
Telephone: +94 112496200, 2439651-4

Navigation Icons

Capitals	Strategic focus areas	Stakeholders
Financial capital	Growth	Shareholders
Human capital	Productivity	Employees
Social and relationship capital	Winning Organisation	Government
Manufactured capital	Sustainability	Business partners
Intellectual capital		Consumers
Natural capital		

ANNUAL REPORT 2016

BEYOND THE SMOKE

Ceylon Tobacco Company

A member of the British American Tobacco Group

CEYLON TOBACCO COMPANY PLC


LOOK BEYOND THE
SMOKE.

For over a century, our role in Sri Lanka's economic development has been catalytic. We have fostered growth across the nation, adding value to national wealth creation, year on year. We have stood by the nation, lending a hand at every one of its junctures, we have pioneered ecological preservation, innovated sustainable economic livelihood projects and invested into the national industry, in ways that are indisputable. We embrace balanced and evidence based regulation and ensure compliance with all relevant laws in the country.

Sri Lanka - Look Beyond the Smoke.

CONTENTS

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www.ceylontobaccocompany.com

OUR VISION

WORLD'S BEST AT SATISFYING CONSUMER MOMENTS IN TOBACCO AND BEYOND.

OUR MISSION

Delivering our commitments to society, while championing informed consumer choice.

AN OVERVIEW OF OUR BUSINESS

Ceylon Tobacco Company PLC (CTC) is the only legal manufacturer of cigarettes in Sri Lanka, and one of the country's most dynamic and progressive organisations. The Company's position as the country's largest individual tax contributor, 2nd most valuable listed company and deep rooted relationships with over 178,000 livelihoods supported through farming, manufacturing and retailing is testimony to its undeniable impact on the country's economy. In 2016, CTC contributed Rs. 87.4 billion in excise taxes to the national exchequer. Our total tax contribution amounted to 7% of the state's total tax revenue and 76% of the value generated by the Company. We have continued to invest in strengthening the value proposition offered to our team of 273 high-performing employees and are resultantly one of the country's most preferred employers. As an organisation operating in a controversial industry, we understand the added responsibility placed on us to maintain the highest standards of corporate conduct, and take pride in the sustainable and responsible way our operations are run. The Company's flagship corporate social investment (CSI) initiative, the Sustainable Agricultural Development Programme (SADP), has enabled us to empower and facilitate socio-economic progress for 72,964 beneficiaries in 16 districts over the past decade.

Our continuing success is founded upon several distinctive strengths, our talented team, a strong portfolio of brands and our strategic approach to sustainability.

Our People

We employ 273 talented and highly motivated professionals who are empowered to drive our ambitious strategies.

We also partner more than 20,000 tobacco farmers island-wide, who are a vital part of our value creation process.

Our Sustainable Approach

Sustainability thinking and practices are proactively embedded at every level of our business. Three focus areas of our sustainability agenda are,

- Harm reduction
- Sustainable agriculture and farmer livelihoods
- Corporate behaviour

OUR PRODUCTS

DUNHILL Fine Cut

DUNHILL Switch

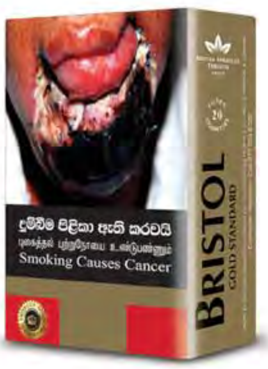
DUNHILL Blue

DUNHILL Grey

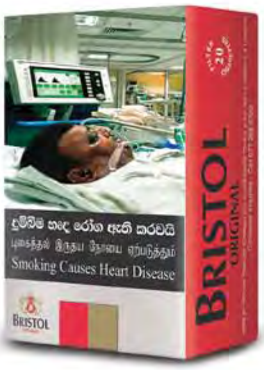
BENSON & HEDGES (B&H)

JOHN PLAYER GOLD LEAF (JPGL)
20's Pack

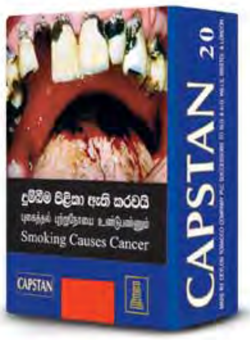
JOHN PLAYER GOLD LEAF (JPGL)
12's Pack



BRISTOL Gold



BRISTOL Original



CAPSTAN

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

PERFORMANCE HIGHLIGHTS

		Metric	2016	2015
Financial Highlights	**STRATEGIC PRIORITY- GROWTH**			
	Gross Turnover (including VAT)	Rs. million	121,525	106,491
	Government Levies (Excise and other)	Rs. million	89,777	80,391
	Net Revenue	Rs. million	31,747	26,099
	Profit Before Tax	Rs. million	21,219	18,078
	Profit After Tax	Rs. million	12,559	10,634
	Net Assets	Rs. million	3,485	2,885
	Interim Dividends	Rs. million	11,389	7,765
	Proposed Final Dividend (subject to approval at the Annual General Meeting)	Rs. million	1,124	693
	Total Value Added	Rs. million	112,615	100,102
	Capital Investment	Rs. million	420	563
	Market Capitalisation	Rs. million	151,076	185,919
	Value Added per Employee	Rs. million	413	379
	Permanent Employees	Number	273	264
	Dividend Payout Ratio	%	99.6	79.5
	Per Share **(Rs.)**			
	Market Value	Rs.	806.50	992.50
	Net Assets	Rs.	18.60	15.40
	Earnings	Rs.	67.05	56.77
	Dividends (Interim and Proposed Final Dividend)	Rs.	66.80	45.15
Social Highlights	**STRATEGIC PRIORITY: PRODUCTIVITY**			
	Revenue per employee	Rs. million	445	403
	Profit per employee	Rs. million	46	40
	Overall Equipment Efficiency (OEE)	%	75	71
	Productivity Savings	Rs. million	189	219
	Net profit margin	%	10.3	9.9
	Return on assets	%	60.9	62.3
	STRATEGIC PRIORITY: WINNING ORGANISATION			
	Employees	Number	273	264
	Total training hours	Hours	4,074	5,650
	Investment in training	Rs. million	53	49
	Female participation in management roles	%	16	17
	Employee turnover	%	7.3	7.2
Environmental Highlights	**STRATEGIC PRIORITY: SUSTAINABILITY**			
	Payments to tobacco farmers	Rs. million	875	790
	Investment in SADP	Rs. million	47	41
	Beneficiaries of SADP	Number	72,964	69,000
	GHG Emissions	tCO2e	3,434	4141
	Emission intensity	tCO2e/MCE	0.6	0.7
	Energy	GJ	41,324	49,663
	Energy intensity	GJ/MCE	7.2	7.5
	Water	CuM	40,396	47,273
	Water intensity	CuM/MCE	7.1	7.2
	Waste recycled	%	95	95
	Investment in EHS initiatives	Rs. million	42	43

tCO2e - Tonnes of Carbon Dioxide Equivalent
MCE - Million Cigarette Equivalent
GJ - Giga Joules
CuM - Cubic Metres

OPERATIONAL HIGHLIGHTS

111Years

of operations in Sri Lanka

2nd

most valuable company listed on the Colombo Stock Exchange as at 31/12/2016

Rs. 87.4 Bn

contributed to government revenue through excise taxes in 2016

Rs.679 Bn

contributed to the state over the past 10 years

178,000+

livelihoods supported through our farming, manufacturing and retailing operations

45,000+

jobs created across our supply chain

20,000+

persons involved in tobacco farming using less than 0.1% of the country's arable land

Rs. 11+ Bn

infused into the local economy throughout our value chain in 2016

CHAIRMAN'S MESSAGE

Read the Chairman's Message online.

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SUSANTHA RATNAYAKE
Chairman

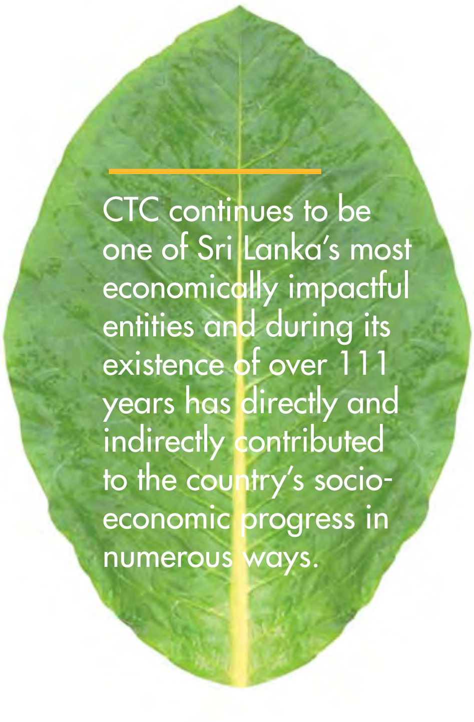
> "Revenue and profit growth of a respective 14.1% and 18.1% is commendable given the numerous challenges that were prevalent in the Company's operating environment, particularly during the second half of the year."

I am pleased to report to our shareholders that Ceylon Tobacco Company PLC (CTC) delivered yet another year of strong financial performance, with earnings per share increasing by 18.1% to Rs. 67.05 in 2016. The Board has approved a final dividend of Rs. 6 per share, in addition to the four interim dividends paid which takes the total dividend per share for 2016 to Rs. 66.80.

CTC's share price declined by 18.7% in 2016, significantly more than the broader market decline in the Colombo Stock Exchange (CSE). The share price will continue to be under pressure in 2017 given the challenges the Company is facing in light of the unprecedented Government driven excise increase in the 4th quarter, which will place significant pressure on the entire value chain as well as government revenues. With a market capitalisation of Rs. 151.07 billion, The Company continued to be the 2nd most valuable listed company in the CSE and is also amongst the highest dividend payers with an average dividend payout ratio of around 99.6%.

Revenue and profit growth of a respective 14.1% and 18.1% is commendable given the numerous challenges that were prevalent in the Company's operating environment, particularly during the second half of the year. The dual impact of a hike in excise duties on cigarettes and the introduction of Value Added Tax (VAT) had a significant impact on consumer affordability while many instances of unlawful enforcement of tobacco regulations also adversely affected performance. On the macro-economic front, Sri Lanka's GDP grew by 4% in the first nine months of the year, upheld by expansion in the Industrial (+5.7%) and Services (+4.8%) sectors while the Agriculture sector contracted compared to 2015. A tightening monetary policy stance resulted in interest rates gradually increasing for most part of the year with inflation stabilising by the second-half.

Rs.
66.80
Total Dividend per Share



CTC continues to be one of Sri Lanka's most economically impactful entities and during its existence of over 111 years has directly and indirectly contributed to the country's socio-economic progress in numerous ways. It is the single largest tax contributor, accounting for nearly 7% of the Government's total tax revenue during the year. Sustainability is a core element of who we are and we continue to make substantial investments in ensuring

CHAIRMAN'S MESSAGE

"Persistent challenges stemming from the regulatory and operating environments have made it increasingly difficult for the Company to deliver on its value creation commitments."

a sustainable future for our value chain partners. Through an integrated 'crop to consumer' supply chain we support over 178,000 livelihoods engaged in farming, manufacturing and retailing with value injections of over Rs. 11.2 billion. Meanwhile, in aligning with the country's national efforts in driving poverty alleviation, the Company's flagship CSI initiative, SADP continues to empower 72,964 beneficiaries in 18,864 economically underprivileged rural families through agricultural knowledge transfer, resource assistance and skills development.

Persistent challenges stemming from the regulatory and operating environments have made it increasingly difficult for the Company to deliver on its value creation commitments. Given the health risks associated with our products, we understand that regulation is necessary although we urge the Government to pursue balanced and evidence based regulation which preserves the interests of adult consumers while ensuring the livelihoods of all those dependent on our industry including over 20,000 persons involved in tobacco cultivation. Tobacco is a legal industry with an undeniable positive socio-economic impact and a major source of income to almost every government in the world.

Globally recognised as a sustainability champion, British American Tobacco (BAT) was the first tobacco company to be included in the DOW Jones Sustainability Index (DJSI), and has consistently maintained its position as the industry leader in economic, environmental and social performance based on the rankings of the DJSI. Meanwhile, in the sustainability investment specialist RobecoSAM's 2016 Sustainability Yearbook, BAT was once again named Industry Leader in 2016 and placed in the highest Gold Class category. As part of the BAT Network, CTC benefits from the Group's vision for long-term sustainability, robust policy frameworks, world class governance and research capabilities.

I am happy to report that during the year there were no departures from any internal BAT policies including the Company's Standards of Business Conduct (SOBC). The Company has also complied with all applicable laws and regulations including the CSE Listing Rules and the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. As mandated by the regulator, the Related Party Transactions Review Committee was established as a Board sub-committee effective from 1 January 2016. Further information on the Company's compliance and governance mechanisms can be found in the Leadership and Governance section of this Report.

ACKNOWLEDGEMENTS

I would like to thank Mr. Shigeki Endo who retired from the Board in August 2016 for his valuable contribution and take this opportunity to warmly welcome Ms. Emma Ridley, who replaced Mr. Endo as CTC's Finance Director. I extend my sincerest appreciation to my fellow Directors for their vision and valuable insights. The Company's dynamic and talented team is a key factor driving its success and I offer my appreciation and congratulations to all employees. In conclusion, on behalf of the Board, I thank all stakeholders for the continued support rendered to the Company.

SUSANTHA RATNAYAKE
Chairman

24 February 2017

MD AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Read the MD and Chief Executive Officer's statement online.

Scan the QR Code with your smart device to view this message online.

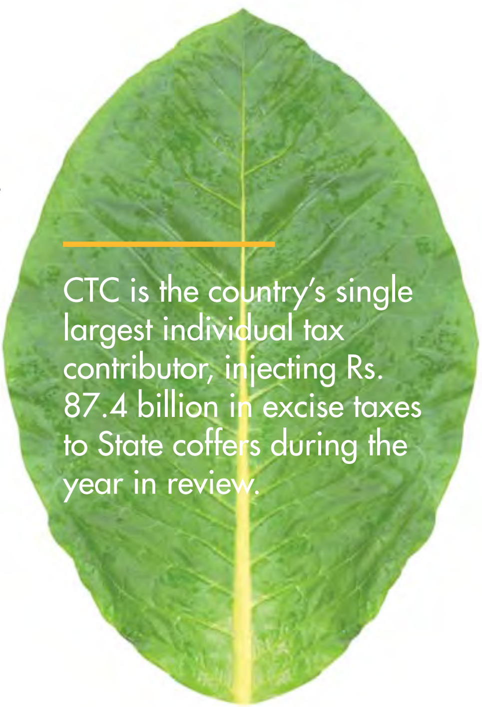
MICHAEL KOEST
MD and Chief Executive Officer

> "We remain steadfast in our commitment towards contributing to the development of the country's economy - through taxes, value injection to the local economy and the development of highly skilled, future-ready business leaders."

We faced a year of unprecedented challenges in 2016, which tested the soundness of our strategy, the strength of our business model and the resilience of our people. Our strategy served us well against these tough conditions and we successfully delivered consistent value to our stakeholders with revenue and profit increasing by a respective 14.1% and 18.1% in 2016. The Company generated Rs. 12.6 billion for our shareholders which translated to earnings per share of Rs. 67.05.

We remain steadfast in our commitment towards contributing to the development of the country's economy - through taxes, value injection to the local economy and the development of highly skilled, future-ready business leaders. CTC is the country's single largest individual tax contributor, injecting Rs. 87.4 billion in excise taxes to State coffers during the year in review and our total contribution in 2016 amounted to 7% of the State's total tax revenue. However, due to an excessive ad-hoc excise hike in October and the introduction of VAT in November, the Government lost Rs. 13.2 billion during the last quarter. We hope this will encourage the Government to consider the impact of such excessive measures in the future.

Rs. (Bn)
12.6
Profit After Tax



We continue in our commitment to create prosperous livelihoods for over 178,000 supply chain partners including in excess of 20,000 persons involved in tobacco cultivation, through whom we infused a record high Rs. 11.2 billion to the local economy in 2016. The Company offers a holistic value proposition to tobacco leaf farmers which comprise skills development, propagation of sustainable agricultural practices, development of infrastructure and strengthening community networks. CTC's compelling employee value proposition is characterised by substantial investments in talent development, a goal-oriented, performance driven culture. The opportunities for cross border exposure has enabled us to nurture highly-skilled global professionals for decades. These individuals have emerged as leaders not only within CTC but also within other BAT Group companies, contributing towards the growth of our international business across the world.

Our long-term aspiration is to achieve sustainable growth in our business while delivering growth in government revenue and injecting value to the local economy. However, irrational policy decisions and unlawful enforcement of tobacco regulations in recent times will jeopardise our ability to create value and reinforce the need to take some tough decisions for

MD AND CHIEF EXECUTIVE OFFICER'S STATEMENT

"The beedi industry is under regulated and therefore severely under-priced. The exponential growth over the past decade or so has resulted in beedi contributing 44% of total smoking, compared to just 20% in 2007."

our business by finding sustainable ways of operating in such a hostile environment. Unfortunately, this means that the entire value injection into the Sri Lankan economy is at risk. In 2016, we and our valued business partners pursued legal action and obtained stay orders against unlawful enforcement of regulations affecting our industry and ensured the continuity of operations with minimal disruptions. That said, if the relevant authorities continue to pursue such unfair enforcements, it will have a substantial impact on the Company's ability to generate value.

The lack of a level playing field continues to insert pressure on CTC as rapid and frequent increases in excise duties applicable on our products have increased price disparities and tipped the scales in favour of cheaper alternatives such as beedi. The beedi industry is under regulated and therefore severely under-priced. The exponential growth over the past decade or so has resulted in beedi contributing 44% of total smoking, compared to just 20% in 2007. As the affordability of legal cigarettes continues to diminish, we anticipate higher consumer down trading and estimate beedi to amount to at least half the tobacco market - a trend that will cost the Government billions in lost tax revenue. More importantly, beedi are not manufactured under a controlled environment and given the lack of quality standards the likelihood of inferior, hazardous products entering the market is high. This is in stark contrast to our products which adhere to world class quality standards and are supported by the global research capabilities of our parent company. Proposals to increase regulation and levies on beedi are welcome and will serve to create a level playing field in the tobacco industry, which we believe is the right way forward.

Illicit cigarettes are increasingly challenging government revenue with the sudden influx seen following the excise led price increase during the 4th quarter of 2016. This is evident by the upsurge in the number of smuggled cigarettes detected during this period and with the disparity in prices of legal and illegal cigarettes, we foresee the illicit tobacco segment growing to 8% of the total tobacco market in 2017, posing an enormous threat to government revenue and the legal cigarette industry. We will continue to support law enforcement agencies to curtail illegal trafficking of cigarettes through raising awareness and sharing resources.

Implications of climate change and unreasonable cultivation restrictions are also making it extremely challenging to maintain our value injection to the rural economy. As a policy, CTC sources the entirety of its tobacco leaf requirement from local farmers; however unreasonable restrictions on cultivation and the unlawful enforcement of regulations through pressurizing farmers to abandon tobacco cultivation have diminished the tobacco farmers' only income.

Emerging external challenges have compelled us to revisit our strategy and engage in decisive management interventions to ensure the viability of our business. Portfolio growth was a key pillar of our strategy and we focused on building a more relevant and innovative product portfolio catering to the evolving needs of our consumers. For us, growth is not about encouraging more people to smoke but understanding and meeting the changing preferences of adult consumers with high quality, innovative products. JPGL continues to be the primary brand in the Sri Lankan market. During the year, however, we pursued expansion of BAT's Strategic Brand DUNHILL, with the introduction of the 'Tube Filter' and 'Fine-cut' products, resulting in DUNHILL volumes growing by 43%. In demonstrating its commitment towards harm reduction, BAT is also developing a portfolio of Next Generation Products which address consumer demand for potentially less risky alternatives to regular cigarettes. Over the longer-term we are keen to launch some of these innovative products in Sri Lanka, thereby offering more choice to adult consumers while supporting our harm reduction efforts.

> "Ad-hoc and unreasonable regulations however, could have unwelcome and unintended consequences, which could threaten the viability of our industry."

We have always been clear that we support regulation that is evidence based, balanced, inclusive and delivers on intended public health policy goals. Ad-hoc and unreasonable regulations however, could have unwelcome and unintended consequences, which could threaten the viability of our industry. As one of the world's largest cigarette manufacturers, our parent Company BAT has extensive experience and expertise in this industry, meaning we have much to offer the Government and regulators in helping develop policies around tobacco. We are keen to contribute to the debate and engage openly on regulation to offer our perspectives, information and ideas to help regulators address the key issues such as eliminating youth smoking – just to name one. We would equally welcome a debate around a more coherent framework for excise calculation to ensure a sustainable increase in the tobacco related revenue to the Government.

The increasingly challenging operating environment and persistent excise-led increases in the price of our products have compelled us to focus on continuously improving the efficiency of our supply chain to safeguard our margins. Ongoing emphasis on streamlining processes and improving productivity have enabled CTC to achieve operational excellence and in 2016 we ranked 2nd among BAT's global companies for manufacturing effectiveness and efficiency. Meanwhile, global uniformity in governance practices, policy frameworks and risk management standards across BAT markets ensure that we maintain the highest level of transparency and integrity in our operations.

We have strengthened our relationships with our distributors and retailers and enhanced their product knowledge and improved business standards. We have continued to add sustainable value to our trade partners through ongoing, systematic initiatives aimed at developing their core competencies, enhancing business knowledge and building capacity. The Company also works closely with retailers to prevent under-age smoking. This includes raising awareness of minimum age laws and providing training to shop staff to enforce age verification procedures.

As an employer of choice, people development has always been vital to our strategy and we continue to invest in nurturing an engaged, motivated and empowered team. An increasingly difficult external environment has forced us to look inwards and develop an agile and lean team, which can effectively respond to market challenges. During the year we focused on developing skills and fortitude to remain resilient in this operating environment. We have encouraged enhanced collaboration across the organisation to effectively master our challenges. With several changes in the Executive Committee and the Extended Leadership Team, we have created a stronger, more agile and fit to fight organisation. I am happy to report that we have significantly rejuvenated the organisation as well as retained 100% of our high potential population, attesting to the attractiveness of CTC's employee value proposition. We are a high performing team, consistently delivering on the Company's strategic direction and I am certain that the skills, attitudes and diversity of our talents will set us up to take on the challenges our industry will continue to face in 2017.

I would like to extent my appreciation to the Chairman, the Board and the Executive Committee for their continued guidance and support during my first year as the MD and CEO of CTC. I am extremely fortunate to lead such a talented and motivated team and I would like to thank them for their commitment which ensured that we continued to deliver value in such tough circumstances. I look forward to working with you all in the coming year.

MICHAEL KOEST
MD and Chief Executive Officer

24 February 2017

BOARD OF DIRECTORS

SUSANTHA RATNAYAKE
Chairman

MICHAEL KOEST
MD and Chief Executive Officer

DINESH WEERAKKODY
Independent Non-Executive Director

PREMILA PERERA
Independent Non-Executive Director

EMMA RIDLEY
Finance Director

KENNETH ALLEN
Non-Executive Director
(Photograph not shown)

SYED JAVED IQBAL
Non-Executive Director

BOARD OF DIRECTORS

SUSANTHA RATNAYAKE

Chairman

POSITION:

Chairman since March 2013, Non-Executive Director since October 2006.

CURRENT APPOINTMENTS:

Chairman/CEO of John Keells Holdings PLC.

PAST APPOINTMENTS:

Chairman of the Sri Lanka Tea Board.

Chairman of the Ceylon Chamber of Commerce.

Chairman of Employers Federation of Ceylon.

SKILLS AND EXPERIENCE:

Mr. Ratnayake has over 38 years of multi-faceted management experience within the John Keells Group and has served on its Board for over 20 years. He has also chaired and served on numerous industry association committees.

MICHAEL KOEST

MD and Chief Executive Officer

POSITION:

MD and Chief Executive Officer since March 2016.

CURRENT APPOINTMENTS:

Non-Executive Director, Pakistan Tobacco Company Limited.

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

PAST APPOINTMENTS:

Commercial Director BAT Korea

Director Primera BV, The Netherlands

SKILLS AND EXPERIENCE:

Mr. Koest has a proven track record in sales and marketing at British American Tobacco - a global FTSE 100 FMCG business. He is experienced in working across geographies and in complex market environments, and he has built high performing, motivated and engaged teams through his inspiring and achievement driven leadership style. An extremely determined commercial leader, strategic thinker and renowned team player, he has consistently achieved outstanding business results. He holds a Bachelor of Arts in Geography (summa cum laude), Philosophy and German literature from the Université de Neuchâtel

DINESH WEERAKKODY

Non-Executive Director

POSITION:

Non-Executive Director since July 2014.

CURRENT APPOINTMENTS:

Advisor to Ministry of National Policy and Economic Affairs.

Chairman National Human Resource Development Council of Sri Lanka.

Chairman Cornucopia Lanka Ltd and Zamlank Developers.

Senior Vice President of the International Chamber of Commerce (Sri Lanka Chapter).

Non-Executive Director of GlaxoSmithKline Sri Lanka, Hemas Holdings PLC, CIC Holdings PLC, Access Engineering PLC and Galle Face Hotel Management Company.

Director/Advisor of Cornucopia Bangalore, India.

PAST APPOINTMENTS:

Chairman of Commercial Bank of Sri Lanka. Chairman/CEO of Employees' Trust Fund Board of Sri Lanka.

Director of DFCC Bank.

Advisor to the Prime Minister from 2002-2004.

SKILLS AND EXPERIENCE:

Mr. Weerakkody has multi-disciplinary experience in the private and public sectors and has served in many cabinet sub-committees and national level committees on economic affairs, international affairs etc. He has also published widely on Human Resources, Leadership, Management, International Relations and Development Issues, and has been involved in large-scale research projects in the USA. He has presented many papers at national and international level.

PREMILA PERERA

Non-Executive Director

POSITION:

Non-Executive, Independent Director and Chairperson of the Audit Committee since January 2013 and the Related Party Transactions Review Committee since 2016.

CURRENT APPOINTMENTS:

Non-Executive Director of John Keells Holdings PLC

PAST APPOINTMENTS:

Partner of KPMG Sri Lanka since 1990.

Head of Tax of KPMG.

Regional Tax Director of KPMG Asia Pacific (Singapore) in 2000/2001.

Member of the Main Committee of the Ceylon Chamber of Commerce.

Non Executive Director Holcim (Lanka) Limited

SKILLS AND EXPERIENCE:

Ms. Perera has extensive experience in the areas of international tax, financial services, mergers and acquisitions. She has served as Regional Tax Director of KPMG Asia Pacific, as a member of the Global Task Force commissioned by the

International Board of KPMG in 1998, to advice the Board on future direction in determining its long-term strategic plans and faculty of the KPMG International Tax Business School. She also served a period of secondment with the US Firm's National Tax Office in Washington DC, and was a participant at the KPMG-INSEAD International Banking School programme.

EMMA RIDLEY

Finance Director

POSITION:

Finance Director since August 2016.

CURRENT APPOINTMENTS:

N/A

PAST APPOINTMENTS:

Commercial Finance Manager and Supply Chain Finance Manager for BAT Australia

SKILLS AND EXPERIENCE:

Ms. Ridley has over 10 years' experience in international markets across the British American Tobacco (BAT) group as well as in Audit. Emma has a proven track record for managing, directing and driving growth in both business and talent.

She holds a Bachelor of Science (BSc (Hons) in Mathematics and Statistics from the University of Bath and is a qualified fellow of the Institute of Chartered Accountants of England and Wales. Recently she has become an accredited member of the Australian Institute of Company Directors (AICD).

SYED JAVED IQBAL

Non-Executive Director

POSITION:

Non-Executive Director since May 2014.

CURRENT APPOINTMENTS:

Area Head, South Asia Cluster

PAST APPOINTMENTS:

Finance Director for the BAT Swiss business unit.

Finance Controller for BAT South Korea.

Director Finance and IT of BAT Pakistan.

SKILLS AND EXPERIENCE:

With over 20 years of experience in the BAT Group, Mr. Iqbal has held senior key finance roles in various markets and at the Global Headquarters. He has an MBA degree with majors in Finance and MIS.

KENNETH ALLEN

Non-Executive Director

POSITION:

Non-Executive Director since October 2014.

CURRENT APPOINTMENTS:

Head of Regional Operations for Finance at BAT Singapore.

PAST APPOINTMENTS:

Operations Finance Manager and Corporate Finance Manager for BAT New Zealand.

Supply Chain Finance Manager and Financial Controller for BAT Australia.

SKILLS AND EXPERIENCE:

Mr. Allen has over 25 years' experience in the tobacco industry and has held several senior finance appointments within the BAT Group. He holds a degree in Commerce with Accounting Major from University of Western Sydney and is a qualified Certified Public Accountant (CPA) of Australia.

THE EXECUTIVE COMMITTEE

MICHAEL KOEST
MD and Chief Executive Officer

EMMA RIDLEY
Finance Director

KAVINDA NANAYAKKARA
Marketing Director

RUKSHAN GUNATILAKA
Supply Chain Director

DINESH DHARMADASA
Legal and External Affairs Director

ARUNA DISSANAYAKE
Human Resources Director

RANJAN SENEVIRATNE
Company Secretary

LEADERSHIP AND GOVERNANCE

BOARD ACTIVITIES IN 2016

Growth

- Reviewing the implementation of the Company's strategy and plan and monitoring performance against short-term and long-term strategic priorities.
- Advising on CTC's product and portfolio strategy, with a view on enhancing consumer value through product offers, in the evolving consumer segments.

Productivity

- Reviewing savings generated through productivity and smart cost management initiatives across the organisation and providing guidance for further optimisation.
- Providing guidance for further utilisation of Company assets to increase shareholder value.

Winning organisation

- Reviewing and approving the Company's remuneration framework for management staff.
- Adopting a competitive rewards scheme.

Sustainability

- Advising and evaluating of strategies to tackle different regulatory challenges.
- Strengthening the Company's risk management framework.
- Adopting and implementing a comprehensive business continuity plan.
- Ensuring Corporate Governance and statutory compliance with increased focus on related party transactions.
- Adopting standards of business conduct.
- Adopting policies to ensure transparency and disclosure of information.
- Managing relationships with external stakeholders.
- Reviewing progress of CTC's corporate social investments.
- Reviewing the Company's environment, health and safety policies and performance.

GOVERNANCE PHILOSOPHY AND FRAMEWORK

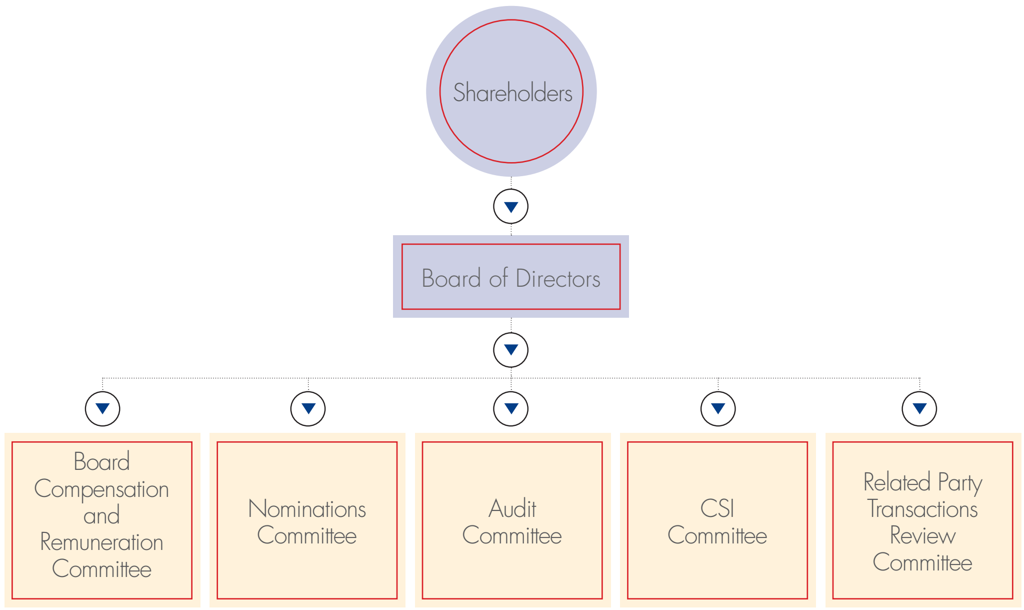
At CTC, sustainable value creation is underpinned by robust Corporate Governance Framework, which enable us to facilitate and nurture strong relationships between the Board, shareholders, employees and other stakeholders. Our strong governance philosophy is our vehicle to sustainable business relationships, business integrity and transparency to deliver long-term value creation to all our stakeholders. The governance framework in place at CTC extends beyond legal requirements to embrace voluntary codes and international best practices.

CTC's Corporate Governance Framework has been developed broadly in line with the Group's policies, principles and standards, and refined to comply with the requirements under the Companies Act No. 7 of 2007, the rules of the Colombo Stock Exchange and other relevant laws and regulations. The Company has also adopted the Code of Best Practice on Corporate Governance 2013 issued jointly by the Securities & Exchange Commission of Sri Lanka (SEC) and the Institute of Charted Accountants of Sri Lanka (ICASL), the G4 standards for Sustainability Reporting issued by the Global Reporting Initiatives and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC).

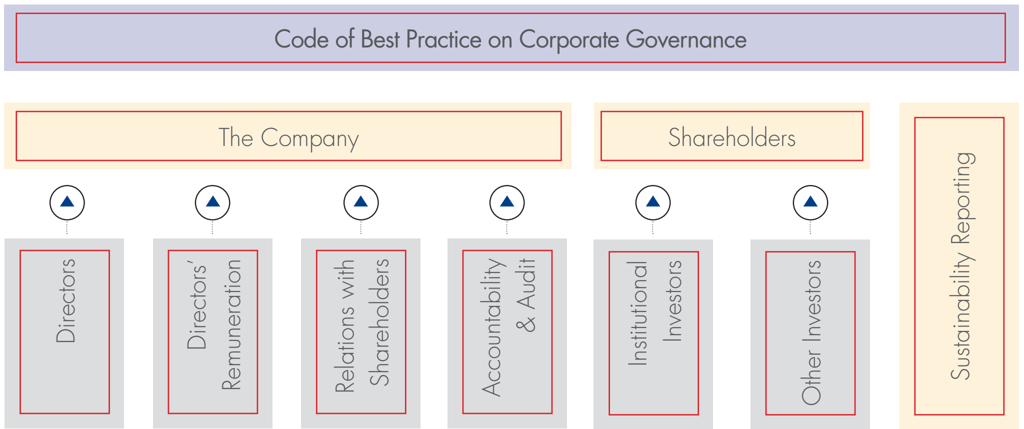
Standards and Principles		Governance Systems
Internal	**External**	
• Vision, Guiding principles and "Must Do's" • Articles of Association • Standards of Business Conduct • Group's Corporate Governance Framework and practices • Statement of Delegated Authorities • Group's Stakeholder Engagement Guidance • Terms of References for Board and Board sub-committees • Comprehensive framework of policies, systems and procedures	• Companies Act No. 7 of 2007 • Listing Rules of the Colombo Stock Exchange • Code of Best Practice on Corporate Governance issued by the SEC and ICASL • Sri Lanka Accounting Standards • Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) • G4 Standards for Sustainability reporting issued by the Global Reporting Initiative • SEC Code on Related Party Transactions	• Strategic planning • Stakeholder engagement and management • Risk management • Regulatory compliance • People management • CSI governance • Internal and external audit • Related Party Transactions

LEADERSHIP AND GOVERNANCE

GOVERNANCE STRUCTURE



The subsequent discussion on the Company's governance practices has been structured in line with the requirements of the Code of Best Practice (issued by the SEC and ICASL) with the objective of providing a comprehensive yet concise description on all governance-related aspects as outlined in the diagram below.



AN EFFECTIVE BOARD

CTC's Board consists of five Non-Executive Directors (including the Chairman) and two Executive Directors. The MD and CEO and Finance Director are the Executive Directors on the Board. (Please refer page 22 for full profiles of Directors). The BAT Group is represented by two Directors, who hold no executive functions in CTC. The composition of the Board, the balance between Executive and Non-Executive representation and the calibre of Non-Executive Directors ensure that power is appropriately balanced within the Board.

Of the Non-Executive Directors, three are deemed independent of management and free of any business or other relationship that could materially affect the exercise of their independent judgement. Annual declarations of independence or non-independence are obtained from all Directors in accordance with the stipulations of the Listing Rules of the CSE and the guidelines of the Code of Best Practice.

The overall effectiveness of the Board is enhanced by the diversity and breadth of perspectives of its members, who combine professional and academic skills as well as experience both locally and internationally.

Collectively, the Board also has sufficient financial acumen and knowledge with five Directors holding membership in professional accountancy bodies. All Directors have received comprehensive training when first appointed to the board and thereafter encompassing both general aspects of directorship and matters specific to the Company and industry. The Company has a procedure agreed to by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.

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

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

Board sub-committees have been set up with specific responsibilities to assist the Board in discharging its duties. During the year, the Related Party Transactions Review Committee was established in compliance with the requirements of the Listing Rules of the Colombo Stock Exchange and the SEC Code on Related Party Transactions. The composition and key responsibilities of the Board sub-committees are;

LEADERSHIP AND GOVERNANCE

Sub-Committee	Composition	Mandate
Audit Committee	Two Independent Non-Executive Directors and a Director holding a key financial role in a Group subsidiary but does not hold executive functions in CTC. The Committee is chaired by an Independent Non-Executive Director who is member of a professional accounting body with adequate experience.	Support the Board and the Group's relevant Regional Audit Committee in ensuring the integrity of financial statements, management of business risks, internal control and compliance, and conduct of business in accordance with the SOBCs.
Board Compensation and Remuneration Committee	Consists of two Independent Non-Executive Directors. Chaired by the Chairman of the Board.	Responsible for determining the framework and policy on the terms of engagement and remuneration of the Chairman, the Board of Directors, the Executive Committee and the Management staff of the Company.
Nominations Committee	Consists of two Independent Non-Executive Directors and one Executive Director. Chaired by the Chairman of the Board.	Provide recommendations to the Board on suitable candidates for appointment to the Board ensuring that the Board has a diverse appropriate balance of skills and experience.
Related Party Transactions Review Committee	Consists of two Independent Directors and the Finance Director Chaired by an Independent Non-Executive Director.	Review and provide recommendations on related party transactions in line with the listing rules and SEC Code on related party transactions.
CSI Committee	Chaired by the Chairman of the Board.	Ensure that the Company's CSI activities are in line with the Company's CSI strategy and are managed in a transparent and effective manner.

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

Name	Board	Audit Committee	Nominations Committee	Board Compensation Committee	CSI Committee	RPTR Committee
Mr. Susantha Ratnayake * *	04/04 +		01/01 +	02/02 +	01/01 +	
Mr. Michael Koest	04/04	01/02 ^	01/01		01/01	
Mr. Shigeki Endo (Retired w.e.f. 4 August 2016)	02/04	01/02 ^			01/01	02/04
Ms. Emma Ridley (Appointed w.e.f. 4 August 2016)	02/04	01/02 ^				02/04
Mr. Javed Iqbal *	03/04					
Mr. Kenneth Allen *	04/04	02/02				
Ms. Premila Perera* *	04/04	02/02 +	01/01	02/02		04/04 +
Mr. Dinesh Weerakkody* *	03/04	02/02			01/01	03/04
Mr. Dinesh Dharmadasa* * *					01/01	

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

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

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

BOARD INDUCTION AND TRAINING

All Directors receive induction on joining the Board, covering their duties and responsibilities as Directors and information covering matters pertaining to the Company and the industry. An induction pack, consisting of the Company's Articles of Association, the NATA Act, the Board

LEADERSHIP AND GOVERNANCE

Charters and Annual Reports among others is provided to all newly appointed Directors. Non-Executive Directors undergo a 3-day induction programme, with comprehensive coverage on all operational aspects. These sessions consist of:

- One-to-one session with the Chairman;
- Sessions with department heads including presentations covering all functions which include Marketing, Supply Chain, Finance, Human Resources, and Legal and External Affairs;
- Market visits covering multiple channels including general trade, modern trade and hotels/restaurants; and
- Site visit to factory and an area of tobacco cultivation, providing Directors with an opportunity to meet tobacco farmers and barn owners.

In addition, Directors regularly receive briefings designed to update their skills and knowledge, for example in relation to the business and on legal and regulatory requirements. Directors also participate in relevant external training sessions, such as those organised by the Sri Lanka Institute of Directors.

ROLE OF CHAIRMAN AND MD AND CEO

The roles of the Chairman and the MD and CEO are segregated to ensure appropriate balance of power and authority. The Chairman is responsible for leadership of the Board, for ensuring its effectiveness on all aspects of its role and for facilitating the productive contribution of both Executive and Non-Executive Directors.

The Chairman's duties and responsibilities include:

- Chair meetings of shareholders and of the Board;
- Monitor the performance of the MD and CEO and other Directors and to act on performance evaluations undertaken by the Board by recognising the strengths and weaknesses of the Board and, if appropriate, proposing new members or seeking resignations;
- Lead the direction of the Company, with particular emphasis on;
    - Corporate and business strategy;
    - Financial strategy;
    - Corporate culture and corporate management structure;
    - Corporate Governance and standards of business conduct; and
- The establishment and maintenance of controls and policies necessary to protect the rights and interests of shareholders and creditors of the Company.

The MD and CEO is accountable to the Board of Directors, for the discharge of the following specific duties and responsibilities (among others):

- Chair meetings of the Executive Committee;
- Be responsible and accountable to the Board for the management and profitable operation of the Company;
- Prepare plans and programmes for the attainment of approved objectives and to recommend such plans and programmes to the Board; and
- Create conditions within the Company for the efficient operation by the management and other employees.

The performance of the MD and CEO is appraised on an annual basis by the Board and relevant regional heads of the Group. Financial and non-financial targets are set for the MD and CEO at the commencement of each financial year, reflecting the Company's financial, social and environmental objectives.

BOARD APPOINTMENTS

New appointments to the Board are based on recommendations of the Nominations Committee, which is responsible ensuring that the Board has an appropriate balance of expertise ability. As per the Company's Articles of Association, the Chairman is elected for a term of five years and the Directors for a term of three years with a possible extension of a further three years. 1/3 of Directors submit themselves for retirement at each Annual General Meeting (AGM) and are subject to re-election. The Directors appointed to the Board since the last AGM come up for re-election at the AGM. The Board is committed to refreshing its membership on a regular basis and Non-Executive Directors, who have served more than six years will not be re-appointed.

The following Directors thus will offer themselves for re-election at the forthcoming AGM:

Mr. Kenneth Allen and Ms. Premila Perera who come up for retirement by rotation thus retire and offer themselves for re-election; and

Ms. Emma Ridley who was appointed to the Board since the last Annual General Meeting comes up for re-election and thus offers herself for re-election.

BOARD PERFORMANCE

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

TRANSPARENT REMUNERATION POLICY

The Board Compensation and Remuneration Committee is responsible for determining the framework and policy on terms of engagement (including remuneration) of the Chairman, Executive Directors and senior management. The Terms of Reference of the Committee are in compliance with the guidelines prescribed by the Code of Best Practice, CSE Listing Rules and guidelines. The Company's Remuneration policy is designed to provide a structured and balanced remuneration package, with the objective of attracting and retaining top talent. The Remuneration policy covers performance based variable rewards (cash and share incentives, annual bonus plans and long-term incentive plans); the core fixed elements (base salary and benefits); pension; terms of service contracts and compensation payments.

Further details on the activities of the Board Compensation and Remuneration Committee are provided on page 50 of this Report. The aggregate remuneration paid to Executive Directors and Non-Executive Directors is disclosed in the Notes to the Financial Statements on page 138 of this Report.

SHAREHOLDER ENGAGEMENT

The Company strives to engage with its shareholders in a continuous and open manner. The Annual General Meeting is the main forum for engagement and is generally well attended. Notice of the AGM and relevant documents are sent to shareholders at least 15 working days prior to the AGM. A summary of procedures governing voting at the AGM is provided in the proxy form and circulated to shareholders prior to the meeting. Directors, including the Chairman of the Audit Committee attend the AGM to respond to questions raised by shareholders.

Communication with shareholders is also facilitated through the Company's website and announcements to the CSE. Quarterly performance updates are released to the CSE and published on the Company website. Meanwhile, the Assistant Company Secretary acts as the point of contact for clarification, suggestion or complaint raised by shareholders.

ACCOUNTABILITY & AUDIT

The Board is collectively responsible for presenting an accurate and balanced assessment of the Company's performance, financial position and prospects. CTC's financial statements are prepared in accordance with the Sri Lanka Financial Reporting Standards laid down by the Institute of Chartered Accountants of Sri Lanka. The Annual Report conforms to the G4 guidelines on sustainability reporting, prescribed by the Global Reporting Initiative and the Integrated Reporting Framework published by the International Integrated Reporting Council. The Report also contains a declaration of the Board of Directors on the Affairs of the Company (refer page 43), the Statement of Director's Responsibility (refer page 46), Directors' Statement on Internal Controls (refer page 41).

THE AUDIT COMMITTEE

The Audit Committee supports the Board in ensuring the integrity of the Company's financial statements as well as internal controls and compliance. The Committee is chaired by a Non-Executive Director, who is a member of a recognised professional accounting body with extensive experience in relevant areas. The Chairperson works closely with the Company's Finance Director in discharging her responsibilities (Please refer to page 47 of this Report for the Report of Audit Committee). The Terms of Reference of the Audit Committee complies with the recommendations of the Code of Best Practice on Board Audit Committees issued by ICASL and guidelines stipulated by the CSE.

The Audit Committee is responsible for reviewing and monitoring:

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

External Auditors and Auditor Independence Policy: The Company's external auditors, Messrs KPMG Chartered Accountants has not engaged in any services, which are in the restricted category as stipulated by the CSE for external auditors. There is a formalised policy in place aimed at safeguarding and supporting the independence and objectivity of the Company's external auditors. As prescribed in this policy external auditors may be engaged to provide services only in cases where those services do not impair their independence and objectivity. The audit fees paid by the Company to its auditors are separately classified on page 138 of the Note to the Financial Statements.

LEADERSHIP AND GOVERNANCE

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for determining the risk appetite that the Company is willing to take to achieve its strategic objectives and for maintaining sound risk management and internal control systems. CTC's risk management and internal controls framework is aimed at safeguarding shareholders' investment, the Company's assets and evaluate and manage risks that may impede the Company's objectives. A discussion on the Company's key risk exposures and mitigation mechanisms are given in the Report of Managing Risk on page 51 of this document. A risk register based on a standardised methodology, is used to identify, assess and monitor financial and non-financial risks. Risk performance is monitored against defined parameters and reviewed by the Board on a consistent basis. Supported by the Audit Committee, the Board annually reviews the effectiveness of the Company's risk and internal control systems (Refer page 41 of this Report for Director's Statement on Internal Controls).

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

STANDARDS OF BUSINESS CONDUCT (SOBC)

The Company's SOBC which is in line with the Group has been adopted at Board level and is applicable to all Directors, employees and other working on behalf of the Company. It requires all staff to act in an ethical and transparent manner with high standards of business integrity, comply with all applicable laws and regulations and ensure that standards are never compromised for results. The Audit Committee is responsible for monitoring compliance with the SOBC and during the year, there were no material violations of any provisions stipulated in the SOBC.

All employees are also required to disclose any material conflicts of interest (defined in the SOBC) and the Company maintains a Conflicts Log, which details these actual and potential conflicts of interest and the action taken thereof.

WHISTLEBLOWING POLICY

The Company's whistleblowing policy enables staff to raise concerns of suspected wrongdoing without fear of reprisal or retribution. The policy allows employees to directly raise concerns with the Company Secretary or a designated officer. Such complaints are investigated and addressed through a formalised procedure and brought to the notice of the Audit Committee.

RELATED PARTY TRANSACTIONS

A Related Party Transactions Review Committee was set up during the year, in compliance with the SEC Code on Related Party Transactions and Listing Rules of the CSE. A formalised process is in place for related party transactions including identification of related parties, types of transaction and avoidance of conflict of interest. Directors individually declare their transactions with the Company on a quarterly basis and this information is published through the CSE. All related party transactions as defined by the applicable accounting standards are disclosed on Note 25 of the Financial Statements on pages 149 to 152 of this Report.

SUSTAINABILITY

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

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

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

The Company's sustainability agenda was refined after a detailed materiality assessment, covering stakeholder engagement and research and the Company's three key sustainability priorities are:

- Harm reduction;
- Sustainable agriculture and farmer livelihoods; and
- Corporate behaviour.

The Company's performance in each of these priority areas are discussed fully in subsequent sections of this Report.

SUSTAINABILITY REPORTING

The Company's Annual Report is used as a platform to demonstrate openness and build trust and aims to provide focused and integrated sustainability communications for all our stakeholders. This Annual Report is an Integrated Report, prepared in line with the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). It also complies with the G4 guidelines of the Global Reporting Initiative. At Group level, sustainability reporting includes regular Focus Reports and a dedicated online performance centre, in addition to the Sustainability Summary which is published alongside the Group's Annual Report. The online Sustainability Performance Centre demonstrates progress against our goals, data charts and our reporting against the GRI G4 indicators.

The main Sustainability disclosures prescribed by the Code of best Practices are as follows;

Disclosure	Compliance	Page Reference
Economic Performance	Adopted	76
The Environment	Adopted	104
Labour Practises	Adopted	93
Society	Adopted	109
Product and Service Responsibility	Adopted	82
Stakeholder identification, engagement and effective communication	Adopted	60

LEADERSHIP AND GOVERNANCE

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	Leadership and Governance on pages 26 - 39
7.10.2(a)	Independent Directors	2 or 1/3 of Non-Executive Directors, whichever is higher should be independent	Compliant	Leadership and Governance on pages 26 - 39
7.10.2(b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Leadership and Governance on pages 26 - 39
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	Leadership and Governance on pages 26 - 39 Section of Board of Directors on page 20
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 20
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 20
7.10.4	Criteria for defining independence	As per defined criteria of the CSE Listing	Compliant	All three Independent Directors meets the criteria
7.10.5	Remuneration Committee	A listed Company shall have a Remuneration Committee	Compliant	Board Compensation and Remuneration Committee Report on page 50
7.10.5(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent	Compliant	Board Compensation and Remuneration Committee Report on page 50
7.10.5(b)	Report of Remuneration Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Board Compensation and Remuneration Committee Report on page 50
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	Compliant	Leadership and Governance on pages 26 - 39
		b. Statement of remuneration policy	Compliant	Board Compensation and Remuneration Committee Report on page 50
		c. Aggregate remuneration paid to Executive & Non Executive Directors	Compliant	Note No 6 to Financial Statements

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Report of Audit Committee on page 47
7.10.6(a)	The composition of Audit Committee	a. Shall comprise Non-Executive Directors, a majority of whom can be independent	Compliant	Report of Audit Committee on page 47
		b. Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	
		c. The Chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	
7.10.6(b)	Audit Committee Functions	Overseeing of the, (i) Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with Sri Lanka Accounting Standards.	Compliant	Report of Audit Committee on page 47
		(ii) Compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.	Compliant	
		(iii) Processes to ensure that the internal controls and risk management are adequate, to meet the requirements of the Sri Lanka Auditing Standards.	Compliant	
		(iv) Assessment of the independence and performance of the external auditors.	Compliant	
		(v) Make recommendations to the board pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.		

LEADERSHIP AND GOVERNANCE

Rule No.	Subject	Applicable Requirement	Compliance Status	Applicable section in the Annual Report
7.10.6(c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Report of Audit Committee on page 47
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination	Compliant	
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	
9.2.1	Related Party Transactions Review Committee	The Company shall have a Related Party Transactions Review Committee (RPTRC)	Compliant	Report of RPTRC on page 49
9.2.2	The composition of RPTRC	The committee should comprise a combination of Non-Executive Directors and Independent Non-Executive Directors	Compliant	Report of RPTRC on page 49
		One Independent Non-Executive Director should be appointed as Chairman of the Committee	Compliant	
9.3.2.(c)	Disclosure in the Annual Report relating to RPTRC	Names of the Directors comprising the Committee;	Compliant	Report of RPTRC on page 49
		A statement to the effect that the Committee has reviewed the Related Party Transactions during the financial year and has communicated the comments/observations to the Board of Directors.	Compliant	
		The policies and procedures adopted by the Committee for reviewing the Related Party Transactions.	Compliant	
		The number of times the Committee has met during the Financial Year	Compliant	
9.3.2.(d)	Declaration by Board of Directors	A declaration by the Board of Directors in the Annual Report as an affirmative statement of the compliance with these Rules pertaining to Related Party Transactions	Compliant	Report of the Directors on page 43

OTHER DIRECTORSHIPS OF DIRECTORS AS AT 31 DECEMBER 2016

Name of the Director	Name of the Company	Position held
Mr. Michael Koest	Pakistan Tobacco Company Limited	Director
Ms. Emma Ridley	-	-
Mr. Susantha Ratnayake	John Keells Holdings PLC and its Associate Companies and Subsidiary Companies	Chairman
Mr. Javed Iqbal	Pakistan Tobacco Company Limited	Director
Ms. Premila Perera	John Keells Holdings PLC	Director
Mr. Kenneth Allen	British American Tobacco (Singapore) Pte Limited	Director
	British American Tobacco Marketing (Singapore) Pte Limited	Director
	British American Tobacco Asia Pacific Treasury Pte Limited	Director
	Rothmans Industries Private Limited	Director
Mr. Dinesh Weerakkody	Ministry of National Policy and Economic Affairs	Advisor
	National Human Resource Development Council of Sri Lanka	Chairman
	Corucopia Lanka Limited	Chairman
	Zamlank Developers	Chairman
	International Chamber of Commerce (Sri Lanka Chapter)	Senior Vice President
	GlaxoSmithKline Sri Lanka	Director
	Hemas Holdings PLC	Director
	CIC Holdings PLC	Director
	Access Engineering PLC	Director
	Galle Face Hotel Management Company	Director
	Cornucopia Bangalore India	Director/Advisor

ASSESSMENT OF GOING CONCERN

The financial statements of CTC for the year ended 31 December 2016 have been prepared on the basis that the Company is a going concern.

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

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

FINANCIAL INDICATORS

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

OPERATING INDICATORS

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

OTHER INDICATORS

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

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

STATEMENT OF INTERNAL CONTROLS

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

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

To be effective, internal control must:

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

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

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

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

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

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

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

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

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

STATEMENT OF INTERNAL CONTROLS

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

These best practices were complied with during the year 2016.

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

Michael Koest	**Emma Ridley**
MD and Chief Executive Officer	Finance Director

24 February 2017

REPORT OF THE DIRECTORS

The Directors have great pleasure in presenting their Report to the members for the year ended 31 December 2016, together with the audited financial statements of the Company.

STRUCTURE AND KEY ACTIVITIES

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

84.13%

Ceylon Tobacco Company PLC

PRINCIPAL ACTIVITY

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

RESULTS FOR THE YEAR 2016 AND APPROPRIATIONS

	Rs.000's	Rs.000's
Retained profit as at 1 January 2016		**1,012,248**
Current year's profit after charging all expenses and providing for all known liabilities		12,559,459
Dividends		
Dividends of Rs. 64.50 per share on the Issued Share Capital of 187,323,751 shares		
2015 Final dividend - Rs. 3.70 per share paid on 11/04/2016		
First Interim dividend - Rs. 15.60 per share paid on 30/05/2016		
Second Interim dividend - Rs. 16.70 per share paid on 30/08/2016		
Third Interim dividend - Rs. 16.00 per share paid on 30/11/2016		
Fourth Interim dividend - Rs. 12.50 per share paid on 20/01/2017		
Net dividend	(10,874,144)	
Dividend Tax	(1,208,239)	
		(12,082,383)
Write back of unclaimed dividends		11,546
Re-measurement of defined benefit obligations		110,778
Balance carried forward to 2017		**1,611,648**

REPORT OF THE DIRECTORS

Interim dividends of Rs. 11,389 million have been paid and a final dividend of Rs. 1,124 is proposed from current year profit after tax of Rs. 12,559 million.

CAPITAL EXPENDITURE

The Company capitalised a sum of Rs. 420 million in property plant and equipment in its modernisation programme. The movements in property, plant and equipment for the year are shown in Note 12 to the financial statements. The market value of the Company properties are disclosed under Note 12(A).

DONATIONS

Included in the current years result is a sum of Rs. 32 million on Corporate Social Investments shown in Note 8 to the financial statements.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

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

DIRECTORATE

The names of the Directors are disclosed in pages 20 to 23 of the Annual Report.

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

DIRECTORS PROPOSED FOR RE-ELECTION

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

Ms Emma Ridley who was appointed to the Board of Directors since last Annual General Meeting also retire and being eligible, be proposed for re-election in terms of Articles of Association of the Company.

DIRECTORS' INTEREST IN CONTRACTS AND RELATED PARTY TRANSACTIONS

Directors' interests in contracts and Related Party Transactions (RPTs) are disclosed in Note 25 to the financial statements and have been declared at the meetings of the Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Company.

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

RESULTS FOR THE YEAR 2016 AND APPROPRIATIONS

		2016	2015	Growth
Revenue for the year		121,524,857	106,490,586	14%
Profit for the year		12,559,459	10,634,328	18%
No. of shares		187,323,751	187,323,751	-
Earnings per share	- Rs.	67.05	56.77	18%
Net assets per share	- Rs.	18.60	15.40	21%
Market price per share	- Rs.	806.50	992.50	(19%)
Price earnings ratio		12.03	17.48	(31%)
Dividends per share	- Rs.	64.50	41.45	56%

DIRECTOR'S SHAREHOLDING

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

	2016	2015
Mr. Susantha Ratnayake	644	644
Total	644	644

No Director other than those disclosed above have any shareholding.

FUTURE DEVELOPMENTS

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

RESERVES

Total reserves as at 31 December 2016 comprise of revenue reserves amounting to Rs. 1,612 million. Movements are shown in the Statement of Changes in Equity in the Financial Statements. This does not include the proposed final dividend of Rs. 1,124 million.

MAJOR SHAREHOLDINGS

The 20 major shareholders and percentages are disclosed on page 156.

EMPLOYEE SHARE OWNERSHIP PLANS

The Company has no share ownership plans as at 31 December 2016. However, the BAT group through an International Executive Incentive Scheme ("IEIS") offers value of phantom shares in BAT Plc, in cash to selected members of the Executive Committee of Ceylon Tobacco Company PLC, subject to the achievement of performance targets over the previous financial year. The cash equivalent of the share award is paid after a period of three years from the date of grant based on the share price preceding the date of payment.

STATUTORY PAYMENTS

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

GOING CONCERN

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

COMPLIANCE WITH REGULATIONS

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

AUDITORS

Messrs KPMG Chartered Accountants, are willing to continue as Auditors of the Company, and a resolution proposing their re-appointment will be tabled at the Annual General Meeting.

Michael Koest
MD and Chief Executive Officer

Emma Ridley
Finance Director

24 February 2017

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 as at the end of the financial year, and which comply with the requirements of the Act; and

ii. A comprehensive Income Statement, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity which present a true and fair view of the profit and loss of the Company for the financial year.

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

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

ii. All applicable Sri Lanka Accounting Standards (SLAS), as relevant, have been followed;

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

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

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

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

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

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

The Financial Statements were audited by Messrs KPMG Chartered Accountants, the independent external auditors.

The Audit Committee of our Company meets twice annually with the attendance of both internal auditors and the independent external auditors to review the manner in, which these auditors are performing their responsibilities, and to discuss auditing, compliance reviews, 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 all contributions, levies and taxes payable on behalf of and in respect of the employees of the Company, and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date have been paid or, where relevant provided for, except as specified in Note 22 to the Financial Statements covering contingent liability.

Susantha Ratnayake
Chairman

Michael Koest
Chief Executive Officer

24 February 2017

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 Leadership and Governance Report on pages from 26 to 39.

Composition of the Audit Committee

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

The members of the Audit Committee:

Ms. Premila Perera (Chairperson),

Mr. Dinesh Weerakkody

Mr. Kenneth Allen

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

Terms of reference

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

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.

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.

Internal Audit

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

External Audit

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

Meetings

The Committee met twice during the year. Attendance by the committee members at each of these meetings is given in the table on page 31 of the annual report. All invitees including external audit and internal audit personnel attended the meetings regularly. The Committee also met privately with external auditors and with internal auditors with no presence of the management staff, to ensure that no limitations have been placed on their scope of work, conduct of the audit and reporting.

Activities

The Committee carried out the following activities:

Managing Risks

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

Internal Audit

The Committee noted both the internal audit and compliance review plan for 2016 at the beginning of the year as proposed by the Global British American Tobacco Internal Audit function and monitored the implementation of the plan. The findings of the internal audit reports were reviewed and progress of the action plans were monitored.

Internal Controls

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

External Audit

The Committee reviewed the independence of the external auditor (Messrs KPMG Chartered Accountants), the scope of audit for 2016 and fees payable.

The Management Letter issued by the External Auditors (Messrs KPMG Chartered Accountants) highlighting opportunities for improvement, which were observed during the course of the audit, were reviewed by the Committee. The letter of representation issued to the external Auditor was also reviewed by the Committee to ensure that the representations made were consistent with the understanding of the committee, as to the Company's operations and plans.

Financial Reporting

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

Good Governance

A Statement of Business Conduct (SOBC) is submitted each year by the management to the Group, to identify and report incidents

REPORT OF THE AUDIT COMMITTEE

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.

Appreciation

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

Premila Perera
Chairperson,
Audit Committee.

24 February 2017

Members
Dinesh Weerakkody, Kenneth Allen

REPORT OF THE RELATED PARTY TRANSACTION REVIEW COMMITTEE (RPTRC)

The Related Party Transactions Review Committee of Ceylon Tobacco Company PLC was established effective from 1 January 2016 in compliance with the Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules. The Committee consists of two Independent Directors, the Finance Director and is Chaired by an Independent Non-Executive Director as noted below:

Ms. Premila Perera
Independent Non-Executive Director
(Chairperson of the Committee)

Mr. Dinesh Weerakkody
Independent Non-Executive Director

Ms. Emma Ridley
Finance Director

In addition, the MD and Chief Executive Officer of the Company or any other manager of the Company will attend a meeting on the request of the Committee. The Finance Director or in his/her absence his/her nominee subject to approval of the Committee will act as the Secretary of the Committee.

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

- there is compliance with the aforesaid SEC Code and CSE listing rules;
- shareholder interests are protected; and
- fairness and transparency are maintained.

The Committee established and approved Guidelines for conducting Related Party Transactions which sets out, among others, the following:

- The principles that guide RPTs including pre-approval and other reporting requirements;
- Process to identify transactions that require immediate market disclosures and shareholder approval;
- Steps to be followed by the Management in reporting RPTs to the Committee, including documentation templates

The criteria for identifying Key Management Personnel (KMP) was discussed and it was established that the Executive & Non-Executive Directors of the Board and Executive Committee Members of Ceylon Tobacco Company PLC would form a part of the KMP.

The Committee held four Meetings in relation to the year 2016 and the activities and the observations of the Committee have been communicated to the Board of Directors through verbal briefings.

There were no non-recurrent RPTs which required pre-approval by the Committee and recurrent RPTs were reviewed on a quarterly basis for noting.

Premila Perera
Chairperson,

Related Party Transactions Review Committee

24 February 2017

Members
Dinesh Weerakkody, Emma Ridley

BOARD COMPENSATION AND REMUNERATION COMMITTEE REPORT

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

The scope of the committee includes the following:

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

The Board Compensation and Remuneration Committee met on one occasion during the year 2016. During this meeting, The Board Compensation and Remuneration Committee reviewed the below topics and approvals were granted.

1. Proposed competitive salary positioning based on external salary survey results to recruit and retain best local talent to feed the talent pipeline.
2. Proposed revisions to the transport assistance scheme.
3. Proposed merit based salary increments for the Company.

Susantha Ratnayake
Chairman,
Board Compensation and Remuneration Committee

Ceylon Tobacco Company PLC
24 February 2017

Members
Premila Perera

MANAGING RISK

RISK MANAGEMENT

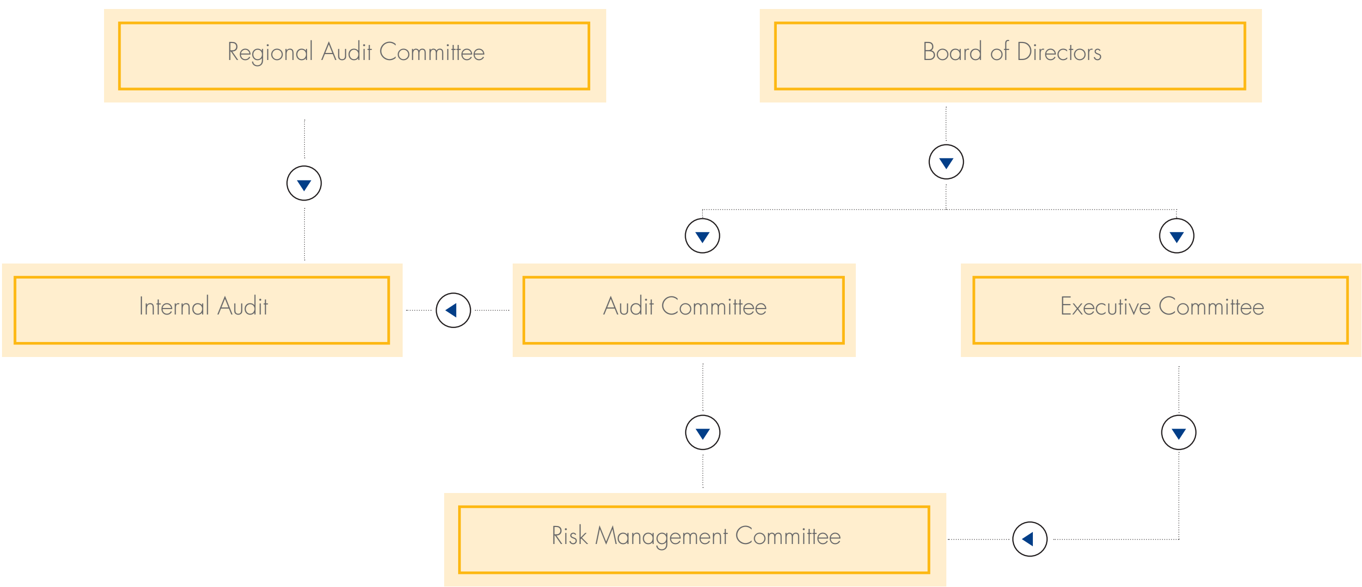
As challenges in our operating landscape continue to intensify, the proactive identification and management of risks become vital in ensuring sustainable shareholder value. The Company's risk management framework is characterised by defined mandates, comprehensive policy frameworks and governance structures, which ensure judicious empowerment. Effective risk identification, monitoring and mitigation processes are embedded in the Company's daily operations through a comprehensive framework of monitoring mechanisms, internal controls and relevant stakeholder engagement mechanisms.

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

RISK GOVERNANCE

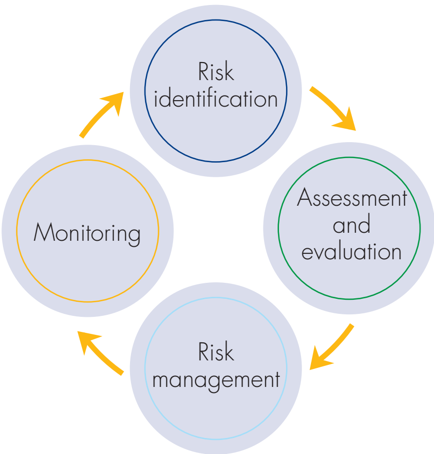
The Board of Directors is responsible for determining the nature and extent of the significant risks, the Company is willing to take to achieve its strategic objectives and ensuring that these risks are managed effectively. The Board is supported by the Audit Committee in discharging its risk management related responsibilities and the Audit Committee reviews the effectiveness of the Company's risk management and internal control systems bi-annually. A dedicated Risk Management Committee (RMC) headed by the Company's Finance Director and consisting of Senior Managers representing key functions report to the Executive Committee on the risk performance of each function on a regular basis. The Company's risk profile is also monitored through the internal reporting mechanisms of the Group.

GOVERNANCE STRUCTURE



MANAGING RISK

RISK MANAGEMENT APPROACH

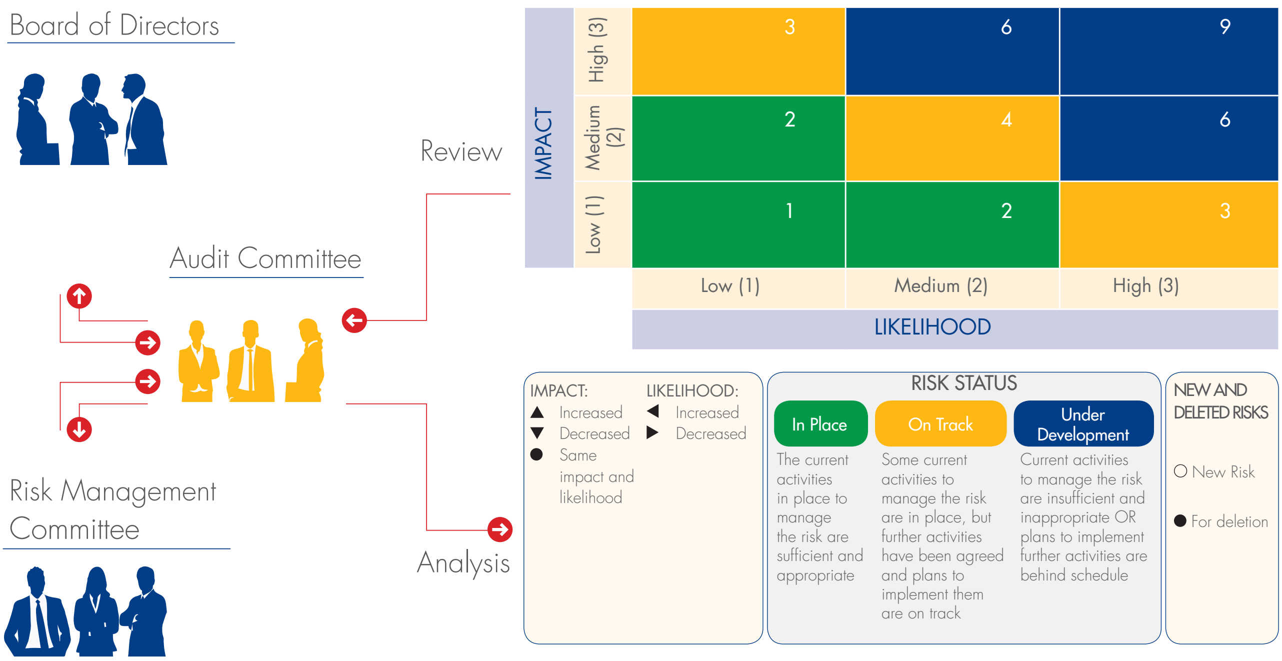


Risk Identification - During the year, a robust assessment of the principal uncertainties facing CTC has been carried out, including those that would threaten its business model, future performance, solvency or liquidity. Financial and non-financial risks are identified at a functional level, with inputs from relevant employees. This was done through team discussions and brainstorming sessions, which facilitate value addition. The identified risks are reviewed for completeness by the RMC on a regular basis and reported to the Audit Committee.

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

Risk Management - Based on the risk scores derived from the risk register, the respective functions formulate strategies to curtail and mitigate these risk exposures. Responsibility for managing each identified risk is allocated to the head of each function (risk owners), who reports regularly to the RMC on the performance of defined risk parameters. Additionally, the potential impact of global trends and risks are also captured through input by the Regional Audit Committee, which also recommends improvements in internal controls in line with global best practices.

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



PRINCIPALS RISKS IN 2016

The Company actively monitors its risk universe to proactively manage and mitigate numerous risk exposures. The following section details several (but not all) key risks that the Board believes could have the most significant impact on the Company's ability to create value. Some of these major risks are outside the control of CTC and other factors besides those listed below may affect the Company's performance. Some risks may be unknown at present; others, which are currently immaterial, could emerge as material risks in the future.

Principal risks	Risk assessment compared to last year		Timeline of risk	Risk management mechanisms in place	Strategic impact	Potential impact on capitals
	Impact	Likelihood				
Unfavourable and unplanned excise and taxes	▲	▲	Medium to long-term	✓		Financial capital
Unreasonable regulations and unlawful enforcement of tobacco regulations	▲	▲	Long-term	✓		Financial capital, Social and relationship capital
Impact of price increases on consumer affordability	▲	▲	Short to medium-term	✓		Financial capital, Social and relationship capital
Competition from illicit trade	▲	▲	Long-term	✓		Financial capital
Competition from beedi	▲	▲	Long-term	✓		Financial capital
Difficulties in recruiting/ retaining talent	▶	▶	Long-term	✓		Financial capital, Human capital

▲ Increase ▶ Unchanged

MANAGING RISK

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Unfavourable and unplanned excise and taxes	Impact ▲	Likelihood ▲	Medium to long-term	✓		Financial capital

Description	Excise duties and taxes on tobacco products are a key source of government revenue leading successive Governments to view the industry as a potential source of additional revenue during periods of fiscal difficulties. In 2016, the Company was faced with the dual impacts of a 28% hike in excise duties and the introduction of 15% VAT.
Potential impact	• Consumers reject legitimate tax paid products for products from illicit sources or under regulated, cheaper alternatives • Decline in legal industry volumes due to accelerated contraction in market as a result of reduced incidence and average daily consumption • Reduced sales volumes and/or portfolio erosion, with increased down- trading
Mitigating actions	• Formal pricing and excise strategy including contingency plans • Pricing, excise and trade margin committees in place • Continuous engagement with the relevant authorities • Portfolio review to ensure appropriate balance and coverage across price segments • Monitoring of economic indicators, political developments and government finances

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Unreasonable regulations and unlawful enforcement in tobacco regulations	Impact ▲	Likelihood ▲	Long-term	✓		Financial capital, Social and relationship capital
Description	As a responsible corporate citizen, CTC ensures full compliance with regulations at all levels. However, the enactment of unreasonable regulations and at certain times, the unlawful enforcement of regulations renders it challenging for the Company to compete effectively, increasing business costs and complexity. The Company has also taken steps to create and enhance the awareness of its trade partners on all applicable regulations.					
Potential impact	• Loss of volume through consumer inconvenience and loss of handlers • Higher business costs and complexity • Legal cost in relation to prosecutions • Undue advantage for illicit products • Reputation threat to CTC due to denormalisation of the industry • Erosion of brand value through inability to launch innovations, differentiate products, build brand equity and leverage price					
Mitigating actions	• Forecast and monitor regulatory changes at all levels • Conduct regulatory risk assessments and prioritise key current and emerging regulatory issues • Stakeholder mapping and prioritisation, developing robust compelling advocacy materials (with supporting evidence and data) and regulatory engagement programmes • Maintain consistent dialogue with the Government and relevant regulatory authorities • Full legal readiness for potential litigation					

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Impact of price increases on consumer affordability	Impact ▲	Likelihood ▲	Short to medium- term	✓		Financial capital, Social and relationship capital
Description	The Company's ability to adjust retail prices to reflect rising manufacturing costs is limited, particularly given the excise-driven steep escalation in prices and the adverse impacts on consumer affordability.					
Potential impact	• Accelerated market decline and resultant drop in volumes • Growth of the illicit trade and under regulated beedi industry					
Mitigating actions	• Strategies to ensure a balanced portfolio and pricing strategies across key segments					

MANAGING RISK

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Competition from illicit trade	Impact ▲	Likelihood ▲	Long-term	✓		Financial capital

Description

Illicit products consist of smuggled cigarettes, counterfeit cigarettes and genuine products, which have evaded paying applicable taxes. The 43% excise-led price increase in legally manufactured products during the 4th quarter of 2016 and the resultant price disparity between legal and illegal products drove more consumers to switch to illicit tobacco products. As a result, in 2017 the illicit tobacco segment is expected to escalate to 8% of the tobacco market, posing an enormous threat to the legal cigarette industry. The threat of illicit consumption is aggravated during periods of economic hardship, high inflation and lower consumer spending and as such we estimate the influx of illicit tobacco products to worsen in the future.

Potential impact

- Impact on volumes and profit performance due to drop in market share
- Reduced ability to take price increases
- Violation of Intellectual Property Rights
- Investment in trade marketing and distribution is undermined

Mitigating actions

- Established an effective Anti-Illicit trade (AIT) strategy aligned to the Group's AIT strategy.
- Maintain an AIT reporting hotline and information obtained thereof is directed to the relevant law enforcement authorities including the Sri Lanka Police and Sri Lanka Customs and Excise Department for appropriate action.
- Continued engagement with relevant authorities and stakeholders
- Building strength in the portfolio

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Competition from beedi	Impact ▲	Likelihood ▲	Long-term	✓		Financial capital

Description

Sri Lanka's beedi consumption has continued to grow underpinned by the frequent and sharp excise-driven price increases of legally manufactured cigarettes. By the end of 2016, beedi accounted for 44% of the total tobacco market compared to 20% in 2007. Overall, the manufacture of beedi, which is a flourishing cottage industry, is under regulated and under taxed making it an attractive substitute for price pressured smokers. As the affordability of legally manufactured cigarettes continues to diminish, more consumers are expected to downgrade to this cheaper alternative. As a result, in 2017, we foresee the beedi industry capturing at least half the tobacco market posing a serious threat to the legal cigarette industry.

Potential impact

- Lack of a level playing field for factory manufactured cigarettes
- Erosion of brand equity and resultant drop in volumes
- Reduced ability to take price increases

Mitigating actions

- Portfolio reviews to ensure appropriate balance and coverage across price segments
- Ongoing engagement with distributors and retailers in communicating attributes of our brands
- Continued engagement with the relevant authorities

Risk factor	Risk assessment compared to 2015		Timeline	Mechanism in place	Strategic impact	Potential impact on capitals
Difficulties in attracting/ retaining talent	Impact ▶	Likelihood ▶	Long-term	✓		Financial capital, Human capital
Description	The Company could be exposed to difficulties in attracting and retaining the right people who have the ability and personal leadership skills to drive its strategic objectives, particularly given social perceptions and stigma surrounding the tobacco industry.					
Potential impact	• Relatively high staff turnover levels could lead to weaker organisational performance and productivity • Difficulties in driving the Company's strategic agenda					
Mitigating actions	• A high level of employee engagement at multiple levels including team and leadership interaction • Elevating the employer brand • Global talent management programme in place, ensuring stretch development opportunities and effective succession planning					

HOW WE CREATE VALUE

OUR INTEGRATED BUSINESS MODEL

The six capital inputs (as defined in the IR Framework) are interdependent and fundamental to the Company's value creation process. CTC's integrated business model demonstrating how we use, transform and add value to these capitals is graphically illustrated below.

CAPITAL INPUTS

Financial & Manufactured capital

Equity: Rs. 1.9 Billion

Total debt: Zero

Property, Plant and Equipment: Rs.2.3 Billion

Human capital

Skills and capabilities of 273 employees

Intellectual capital

Tacit knowledge

Company policies and procedures

Social & Relationship capital

Ongoing relationships with our stakeholders

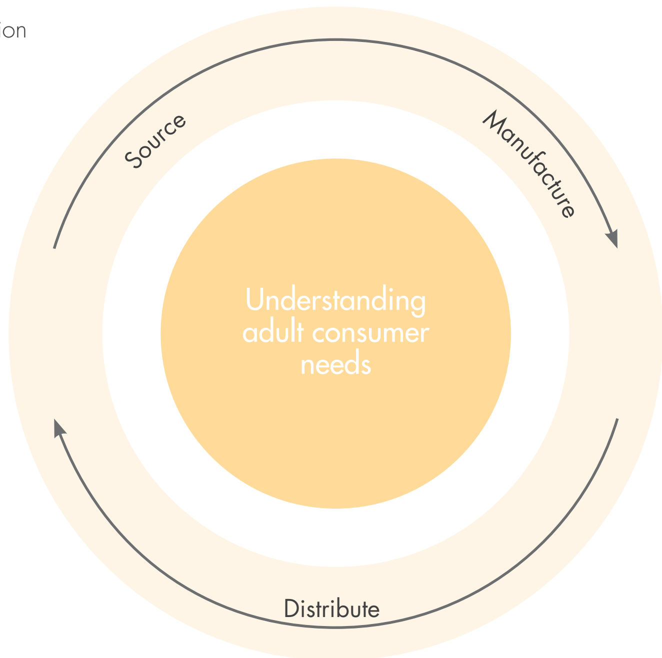
The strength of our brands

Natural capital

Energy: 41,324 GJ

Water: 40,396 CuM

Tobacco leaves: 4,972 MT



Risks and opportunities

- Arbitrary and steep increases in excise duties and taxes
- Tobacco regulation
- Competition from illicit trade
- The growing beedi market
- Next Generation Products

Refer pages 70 - 71

Guiding principles

Freedom through responsibility

Strength from diversity

Open minded

Enterprising spirit

OUTCOMES

Performance

- Volumes affected by increasing regulation and excise
- Ongoing investments in people, supply chain and communities
- Continued improvement in environmental performance

Refer page 72 - 75

Outlook

- Widen the product portfolio
- Ongoing investment in people development
- Support the Government in combating illicit products

Outputs

Cigarettes
3.9 Billion Sticks

Financial and Manufactured capital

Net profit: Rs. 12.6 billion

Excise taxes contributed to government revenue: Rs. 87.4 billion

Earnings per share: Rs. 67.05

Human capital

Payments to employees: Rs. 1.4 Billion

Training hours: 4,074

Investment in training: Rs. 53 million

Social and Relationship capital

Payments to farmers: Rs. 875 million

Payments to other business partners: Rs. 8.9 Billion

Investment in SADP: Rs. 47.3 million

Natural capital

GHG Emissions: 3,434 tCO2e

Solid waste: 564 MT

Effluents discharged: 31,747 CuM

HOW WE CREATE VALUE

ENGAGING WITH OUR STAKEHOLDERS

"Feedback obtained from engagement with stakeholders forms the foundation for identifying material aspects, which are a vital input in our strategy formulation, planning, operations and sustainability reporting."

KEY STAKEHOLDER CATEGORIES:

- Shareholders
- Employees
- Consumers
- Regulators/Government
- Business Partners
- Local communities

Our long-term success is dependent on our ability to understand and respond to the needs of our key stakeholder groups. We engage with stakeholders, who potentially have the most significant impact on our value creation process and those who are affected most by our activities. Feedback obtained from engagement with stakeholders forms the foundation for identifying material aspects, which are a vital input in our strategy formulation, planning, operations and sustainability reporting.

<table>
<tr><th></th><th>Shareholders</th><th>Employees</th></tr>
<tr><td></td><td>The Company's principal shareholder is British American Tobacco Holdings (Sri Lanka) BV, which holds a share of 84.13%. The remainder is held by institutional investors and approximately 4,000 retail investors.</td><td>Our team consists of 273 high performing individuals.</td></tr>
<tr><td>Ongoing engagement methods</td><td>• Annual General Meeting and publication of Annual Report.
• Regular performance updates.
• Announcements to the Colombo Stock Exchange.
• Corporate website.</td><td>• Employee satisfaction surveys.
• Training and development programmes.
• Monthly business update.
• Interact (Intranet).
• Company plan cascade.
• Engagement through trade unions.
• Performance appraisals.
• Functional/departmental meetings.
• Sports and Recreational club activities.
• Structured internal communications through e-mailers, TV Screens etc.</td></tr>
<tr><td>Key topics raised in 2016</td><td>• Sustainable growth in financial, social and environmental performance.
• Financial impact of increasing regulation, excise duty and other taxes affecting cigarette prices.
• Returns in proportion with the risk undertaken.
• Corporate Governance and risk management frameworks.
• Transparency and credibility of disclosures.
• Corporate reputation.</td><td>• Performance and reward management.
• Opportunities for skill and career development (eg: Global Talent Platform, BAT Careers Website, International Assignments and Exchange Programmes).
• Employee safety (eg: PULSAR).
• Ethics and business conduct.
• Improving Diversity (eg: Participation in management teams).
• Freedom of association and collective bargaining.
• Work-life balance.
• Employee health and welfare.
• Open office culture.
• Employee recognition (eg: Rapid recognition, higher visibility).</td></tr>
<tr><td>Relevance in our strategy</td><td> 
Refer pages 72 and 75 for further details</td><td>
Refer pages 73 and 74 for further details</td></tr>
</table>

HOW WE CREATE VALUE

	Consumers	Regulators
	Adult consumers over the age of 21 years.	All relevant Government Ministries and Departments.
Ongoing engagement methods	• General Consumer Survey conducted by a third-party agency. • Consumer hotline. • One-to-one feedback through retailers.	• Direct engagement with relevant Departments, Ministries etc.
Key topics raised in 2016	• Value for money. • Customer service and satisfaction. • Product availability. • Product composition. • Innovation and company initiatives for harm reduction.	• Compliance to all applicable laws and regulations. • Timely payment of relevant excise duties, taxes and levies. • Community development and rural empowerment.
Relevance to strategy	 Refer pages 72 and 75 for further details	 Refer pages 72 and 75 for further details

	Business Partners	Local Communities
	Farmers and barn owners who are critical to our sourcing operations, suppliers who provide packaging and other materials and our distributors and retailers.	All communities we operate in.
Ongoing engagement methods	**Farmers & Barn Owners** • Sustainable Agriculture Farmer Livelihood (SAFL) Programme. • Sustainable Tobacco Programme (STP) Reviews. • Disseminating knowledge and best practices in sustainable cultivation methods. • Farmer appreciation programme. • Field support to tobacco farmers through 35 Leaf Field Officers. • Farmer meetings. • Engagement through SADPUltra.	• Getting involved in community projects in localities we operate in.

	Business Partners (Contd.)	Local Communities (Contd.)
Ongoing engagement methods	**Non-Leaf Suppliers (Direct Material Suppliers)** • Supplier meetings and briefing. • Supplier visits. • Supplier assessments. **Distributors and retailers** • Customer Voice Survey targeted at exclusive distributors and retailers. • Provision of value added services including training and guidance to uplift hygiene and customer service standards among hospitality and restaurant sector retailers.	• Getting involved in community projects in localities we operate in.
Key topics raised in 2016	**Farmers and Barn Owners** • Fair pricing and buy-back guarantees for tobacco leaves. • Timely payments. • Community development projects. • Financial assistance (eg. Loans, pension schemes etc.). • Training on agricultural and environmental best practices. • Total livelihood improvement (eg: scholarships, other food crops, inter-cropping etc.). • International exposure and exchanges. **Non-Leaf Suppliers (Direct Material Suppliers)** • Best Health and Safety practices. • Supplier standards. • Sustainability. • Best practices to improve efficiency and productivity. **Distributors and Retailers** • Availability of products. • Affordability. • Credit/payment terms. • Service quality. • Value added services.	• Opportunities for harmonious and mutually beneficial relationships.
Relevance to strategy	Refer pages 72, 73 and 75 for further details	Refer page 75 for further details

HOW WE CREATE VALUE

DETERMINING MATERIAL ISSUES

Each year, CTC follows a systematic process to identify and prioritise the issues that are most material to stakeholders to ensure that our corporate reporting remains relevant and addresses our response to stakeholder concerns. The process for determining material content is as follows;

Material issues are regularly reviewed based on emerging risks and opportunities in the operating landscape and stakeholder feedback. Accordingly, the material aspects included in this Report are a combination of those prescribed by the GRI guidelines and those specific to our industry, value creation model and strategy. We have also clearly identified how our material aspects correspond to the disclosures recommended by GRI, as detailed in page 166 of this Report.

The following table details the Company's key material aspects for 2016, the stakeholder groups affected by these aspects and the strategic pillar through, which they are addressed. The material issues, which are of high importance to stakeholders and CTC, feed directly into the Company's strategy while aspects of moderate importance are classified in Other Business Priorities.

Material issue	Change in relevance compared to previous year	Stakeholder groups with strongest interest	Pillar of our strategy that could be affected
1. Economic performance	-	Shareholders, Employees, Business Partners, Government	Growth, Productivity, Sustainability
2. Growth	-	Shareholders, Employees, Business Partners, Government	Growth
3. Productivity	-	Shareholders, Employees	Productivity
4. Scientific research	-	Shareholders, Consumers, Regulators/ Government	Sustainability - Harm reduction
5. Product innovation	-	Shareholders, Consumers, Regulators/ Government	Growth
6. Supporting farmers	-	Business Partners, Regulators/Government	Sustainability - Agricultural practices
7. Environmental impacts of tobacco growing	-	Communities, Regulators/Government, Business Partners	Sustainability - Corporate behaviour
8. Agricultural practices	-	Business Partners, Regulators/Government	Sustainability - Agricultural practices
9. Marketing practices	-	Regulators/Government, Consumers, Business Partners	Sustainability - Corporate behaviour
10. Excise and taxes	▲	Shareholders, Regulators/Government, Consumers	Sustainability - Corporate behaviour
11. Youth smoking prevention		Shareholders, Regulators/Government, Consumers	Sustainability - Corporate behaviour
12. Regulatory engagement	-	Shareholders, Regulators/Government, Consumers	Sustainability - Corporate behaviour
13. Tobacco trafficking	▲	Shareholders, Regulators/Government	Sustainability - Corporate behaviour
14. Minimising environmental footprint of operations		Regulators/Government, Communities, Shareholders	Sustainability - Corporate behaviour
15. Employee engagement		Employees, Shareholders	Winning organisation
16. Talent attraction	▲	Employees	Winning organisation
17. Training and development	-	Employees, Shareholders	Winning organisation
18. Workplace human rights		Employees, Regulators/Government	Other priorities
19. Occupational health and safety	-	Employees, Regulators/Government, Shareholders	Winning organisation
20. Corporate social investment	-	Shareholders, Communities, Regulators/ Government	Other priorities
21. CSI governance	-	Shareholders, Regulators/Government	Other priorities
22. Litigation	-	Shareholders, Regulators/Government, Employees	Other priorities
23. Non-leaf supply chain	-	Business Partners, Communities	Other priorities
24. Retailer relationships	-	Business Partners	Other priorities
25. Stakeholder engagement	-	All Stakeholders	Other priorities

HOW WE CREATE VALUE

VISION AND STRATEGY

The Company's strategy is aligned to that of the BAT Group and articulates the blueprint to deliver growth and create long-term value for all stakeholders. Emerging risks and opportunities in the operating environment prompt us to continually revisit and rethink the action plans in place for achieving our priorities, although the key pillars on which our strategic agenda is based, remains unchanged.

Vision

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

Consumers are at the core of everything we do, and our success depends on addressing their evolving concerns, needs and behaviours.

Mission

Delivering our commitments to society, while championing informed consumer choice.

We will defend consumers' right to make an informed choice and be ready to meet new challenges and opportunities as the priorities and needs of societies shift.

Strategic focus areas

Growth
Developing brands, innovations and new products to meet consumers' evolving needs.

Productivity
Effectively deploying resources to increase profits and generate funds for investment.

Winning organisation
Ensuring we have great people, great teams and a great place to work.

Sustainability
Ensuring a sustainable business that meets stakeholders' expectations.

THE SIX STRATEGIC IMPERATIVES

LEVERS			ENABLERS		
SHARPEN COMBUSTIBLE COMMERCIAL MODEL	LEAD IN NGP CATEGORY DEVELOPMENT	PURSUE INORGANIC OPPORTUNITIES	ESTABLISH A GLOBALLY INTEGRATED ENTERPRISE	PURSUE PROACTIVE EXTERNAL ENGAGEMENT	DEVELOP TALENT AS A COMPETITIVE ADVANTAGE

OUR GUIDING PRINCIPLES

The four guiding principles define our organisational culture and define how we deliver our strategy.

Enterprising spirit	Open minded	Freedom through responsibility	Strength from diversity
We have confidence to passionately pursue growth and new opportunities whilst accepting the considered entrepreneurial risk that comes with it. We are bold and strive to overcome challenges. This is the cornerstone of our success.	We always strive to do the right thing, exercising our responsibility to society and other stakeholders. We use our freedom to take decisions and act in the best interest of consumers.	We are forward looking and anticipate consumer needs, winning with innovative, high quality products. We listen to and genuinely consider other perspectives and changing social expectations. We are open to new ways of doing things.	We respect and celebrate each other's differences and enjoy working together. We harness diversity - of our people, cultures, viewpoints, brands, markets and ideas - to strengthen our business. We value what makes each of us unique.

MUST DO'S

The guiding principles translate to the 10 Must Do's for all employees, which provide a blueprint for employee behaviour across the organisation.

- We **understand consumer moments** and how to satisfy them with world beating tobacco and next generation products.
- We make tough choices to deploy an aligned and **focused brand portfolio** in our markets.
- We build **distinctive brands** by exciting our consumers with powerful innovations at their core.
- We **love our products** and provide consistently superior offers to our consumers.
- We set bold ambitions for brand initiatives and deliver with speed and scale to **achieve 70/70** (70% distribution and 70% awareness).
- We plan for success and **supply on time and in full**.
- We **act like owners**, taking personal accountability for building value and driving out complexity and cost.
- We invest as much time and energy in our people as in our brands, focusing on creating a **legacy of leaders**.
- We will **lead the next generation nicotine products category** globally.
- We **shape a new deal with consumers and society**, being completely transparent and seeking to offer safer products.

HOW WE CREATE VALUE

SUSTAINABILITY AT CTC

Sustainability is a vital pillar of our strategy and is crucial to achieving the Company's social and environmental objectives. The sustainability agenda is formulated at BAT level and focuses on three key areas which matter most to the Group and its stakeholders. As a subsidiary, our activities are underpinned by the global sustainability agenda and contribute directly towards fulfilling the Group's global sustainability commitments.

Harm reduction

As part of the Group's global sustainability agenda, we are committed to promoting a range of innovative tobacco and nicotine products to enable adult consumers to have a choice of less risky alternatives to regular cigarettes.

Global commitments

Our approach

Investing in a sustainable pipeline of high-quality Next Generation Products to give consumers a choice of less risky alternatives to smoking.

Setting the bar on standards for product safety and quality, based on robust science, and implementing globally responsible marketing practices.

Supporting the development of evidence-based regulation for Next Generation Products by sharing our own research and approach, and collaborating with regulators and standards authorities.

Sustainable agriculture and farmer livelihoods

We are committed to working to enable prosperous livelihoods for all farmers who supply our tobacco leaf, benefiting rural communities and the environment.

Global commitments

Our approach

Supporting farmers' livelihoods across five key focus areas.

Strengthening industry-wide supplier standards and driving best practice and continuous improvement.

Tackling agriculture's social and environmental challenges through global and local initiatives and stakeholder partnerships.

Corporate behaviour

We are committed to operating to the highest standards of corporate conduct and transparency, benefiting governments, consumers, the environment and our people.

Global commitments

Our approach

Engaging openly on regulation.

Responsible marketing of tobacco products and working with retailers to **prevent youth smoking.**

Collaborating with others to tackle the illegal tobacco trade.

Safeguarding human rights across our own operations and our supply chain.

Protecting the health and safety of our workforce.

Addressing the environmental impacts of our business operations.

OUR COMMITMENT TO THE SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY	**Poverty alleviation through SADP** - The initiative has directly contributed towards increasing income levels of over 18,864 families by providing opportunities to generate alternative sources of income (refer page 110).
2 ZERO HUNGER	**Increasing nutrition** is a key objective of SADP and calorie intake of families has improved in line with the progression of the project (refer page 113).
5 GENDER EQUALITY	At CTC, we promote **gender diversity** in our workforce with 16% female representation at management level (refer page 99) and 40% representation at Extended Leadership Team level (Refer page 99). In 94% of SADP families, women lead the implementation of the project, facilitating financial inclusion among women (refer page 114).
6 CLEAN WATER AND SANITATION	The Company continuously works towards decreasing its water footprint by reducing consumption and increasing recycling and reuse of water (refer page 107). Through SADP, CTC has also constructed 100 **agro wells in drought stricken areas** in the Northern Province at an investment of Rs. 24 million (refer page 111).
7 AFFORDABLE AND CLEAN ENERGY	Multiple initiatives have been implemented to improve energy efficiency and **reduce dependence on fossil** fuels across our business. We ensure that tobacco farmers utilise paddy husk to generate energy in the tobacco curing process, thus completely eliminating the use of firewood (refer page 106).
8 DECENT WORK AND ECONOMIC GROWTH	We ensure **decent work and equality** for all employees irrespective of gender, age or ethnicity and ensure a harassment free and non-discriminatory work environment for all (refer page 100). Through SADP, we have **empowered rural families** to generate income through engaging in home gardening (refer page 113).
13 CLIMATE ACTION	We installed a **solar-powered car charging** system offering free charging facilities to all employees. Also 40% of our marketing fleet was replaced with **hybrid vehicles** (refer page 106).
17 PARTNERSHIPS FOR THE GOALS	We have **partnered other corporates and institutions** in replicating the SADP model in different communities (refer page 113).

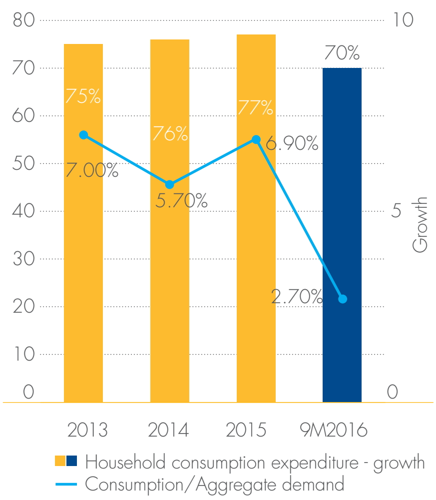
BUSINESS ENVIRONMENT

INDUSTRY INSIGHTS AND CONTEXTUAL TRENDS

Economic Environment

Sri Lanka's GDP growth was 4% during the first 9 months of 2016, supported by expansion in the Industrial and Services sectors which grew by 5.7% and 4.8% respectively, while the Agriculture sector contracted compared to 2015. Meanwhile, the growth in household expenditure slowed to 2.7% in the 3rd quarter of 2016, from 5.7% in the corresponding period of 2015 reflective of relatively higher interest rates, a slowdown in private sector credit growth and higher indirect taxes.

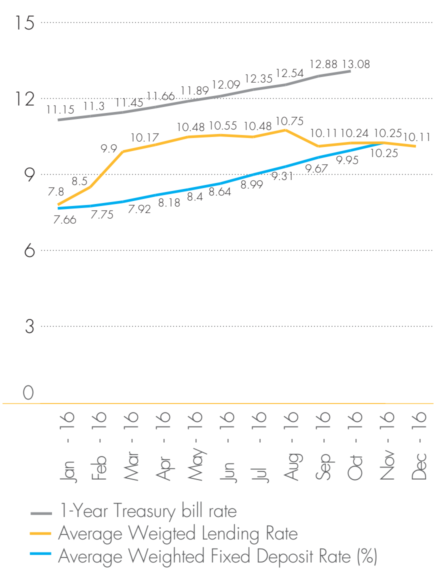
Household consumption expenditure



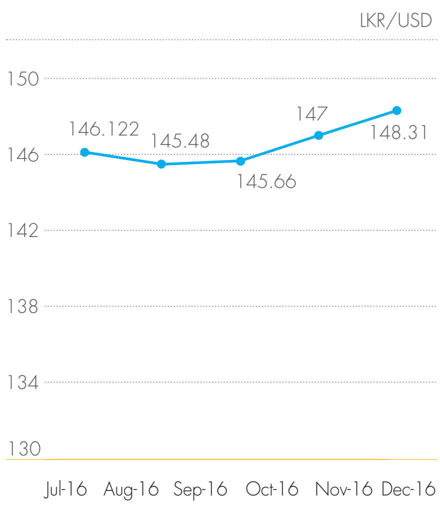
The Central Bank adopted a tightening monetary policy stance with the objective of curbing inflationary pressures and resultantly policy rates were increased twice during the year. In response to these adjustments, market interest rates demonstrated an upward trajectory during majority of the year. Inflation levels increased during the first half of the year, with the Colombo Consumer's Price Index (CCPI) peaking at 6% in June 2016, before decelerating and stabilising in the second part of the year in response to tightening monetary policy measures. On the exchange rate front, the Sri Lankan Rupee depreciated by 4% during the year under review.

Impact on CTC: Given the Company's debt-free balance sheet the direct impact of the interest rate hike is minimal. The depreciation of the Rupee resulted in an increase in the price of imported tobacco leaf, packaging material and manufactured capital

Interest rate trends



Exchange rate movements

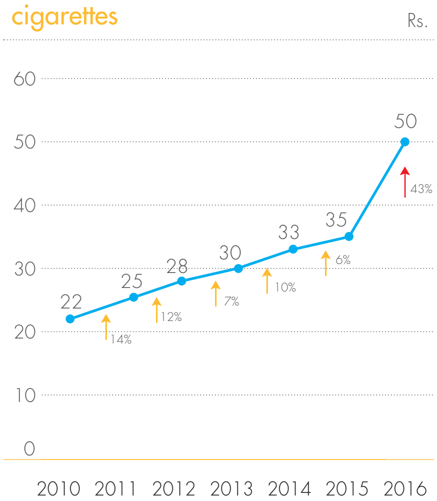


INDUSTRY SPECIFIC RISKS AND OPPORTUNITIES

Arbitrary and steep increases in excise duties and taxes

Excise duties and taxes on cigarettes remain a key source of revenue to the Government, leading successive governments to view the industry as a potential source of additional revenue during periods of fiscal difficulties. In 2016, the Government collected around Rs. 87.4 billion in excise tax on the sale of cigarettes. The Company's tax contribution is estimated to be 7% of the Government's total revenue. The lack of a transparent and systematic policy in the implementation of excise duties, has resulted in arbitrary and steep increases in the retail prices of cigarettes. In 2016, the dual impacts of a 28% hike in excise duties and the introduction of 15% VAT resulted in the average price of a cigarette escalating by 43%. Over the past decade, excise driven increases have pushed up the retail price by over 250% and Sri Lanka's cigarette prices now rank as the second highest in Asia. Tobacco taxation in Sri Lanka is one of the highest in the world. In addition to distorting competition, this has resulted in consumers increasingly shifting to cheaper more harmful alternatives and a rise in tobacco trafficking, which ultimately decreases the likelihood of the Government receiving revenue from tobacco.

Price increase in legal cigarettes



Tobacco regulation

Our operations are governed by a stringent regulatory framework, the National Authority on Tobacco and Alcohol (NATA) Act No 27 of 2006, regulations thereunder and other relevant laws, which sets out specific laws on marketing and consumption of tobacco products among others. As an organisation, we will continue to support evidence-based, balanced regulations that meet public health objectives while ensuring the sustainability of the livelihoods of our business partners and our commercial interests. However, the enactment of unreasonable laws and regulations and the unlawful enforcement of laws leads to increased costs and complexity while jeopardizing the rights of the legally-established cigarette industry to compete fairly in the market. As in other regulated industries, we believe that the enactment of tobacco laws and regulation should be based on constructive dialogue with legally established parties that are affected by such regulation, to ensure that the manufacture and consumption of cigarettes is regulated justly and sensibly.

Competition from illicit trade

Illicit products consist of, smuggled products, counterfeit cigarettes and genuine products, which have evaded paying applicable taxes. Tax increases on legally manufactured cigarettes have increasingly incentivized consumers to switch to illicit products. The expansion of the illicit market represents a growing threat to the legitimate tobacco industry and results in the consumption of substandard products, increased health risks to consumers and loss of revenue to the Government. Consequent to the excise hike and the introduction of 15% VAT in October and November 2016, the price of a stick of the most popular brand of cigarettes soared to Rs.50, a 43% increase over the course of one month. While law enforcement agencies had managed to curtail smuggled cigarettes in the market to 2%, the widening price disparity between legal and illicit cigarettes triggered an influx of smuggled tobacco products into the local market. As a result, illicit tobacco segment is expected to escalate to 8% of the tobacco market in 2017. Consumers shifting to illicit cigarettes will ultimately not only defeat the Government's public health objectives and cause a significant loss in tobacco revenue but also threaten the sustainability of the legal cigarette industry.

In 2016, law enforcement authorities carried out 1,842 raids and CTC continued to support the Government in its efforts to curb illicit trading and prevent substandard products from entering into the local market.

The growing beedi market

As the affordability of legally manufactured cigarettes continues to diminish, there has been a parallel increase in the demand for beedi, a thin stick filled with tobacco flake and wrapped in tendu, a leaf imported from India. The manufacture of beedi, which is a flourishing cottage industry, is relatively under regulated and under taxed, and given the lack of a scientific mechanism to ensure quality standards, the likelihood of inferior products being sold to consumers is high. While the price of a cigarette went up by Rs. 25 over the past five years, price of a beedi stick has only increased by a mere Rs. 2.50 causing notable shifts in consumption patterns. As a result, by 2016, beedi accounted for 44% of the market, compared to just 20% in 2007. Moreover, the sudden increase in prices of legal cigarettes during the last quarter of 2016 has pushed price pressured consumers to switch to the more affordable yet lower quality beedi. As a result, in 2017, beedi is expected to grow to be at least half the tobacco market, which will defeat the Government's public health objectives and cause a significant loss in tobacco revenue while impacting the sustainability of the legal cigarette industry.

Next Generation Products

Harm reduction is a central pillar of BAT's sustainability agenda and every year, the Group invests substantial funds, resources and time in developing less risky alternatives, which have the potential to reduce smoking-related disease. As a Group, we see great potential in the development of less risky tobacco and nicotine based alternatives. BAT offers three distinct Next Generation Product categories for adult consumers; these are licensed medicinal products, vapour products (e-cigarettes) and tobacco heating products. BAT publishes details of its scientific research programmes on its dedicated website, www.bat-science.com, submit the results of studies to peer-reviewed journals, and present widely at leading international conferences.

How contextual trends correlate to our strategy

Significant contextual risks/ opportunities	Growth	Productivity	Winning organisation	Sustainability
Unfavourable and unplanned excise and taxes	▲	▲	▶	▶
Unreasonable regulations and unlawful enforcement of tobacco regulations	▲	▶	NA	▲
Competition from illicit trade	▲	▶	NA	▲
Competition from beedi	▲	▶	NA	▲
Next generation products	▶	▶	▶	▲

▲ High Correlation ▶ Medium Correlation

DELIVERING VALUE

STRATEGIC PERFORMANCE

Growth

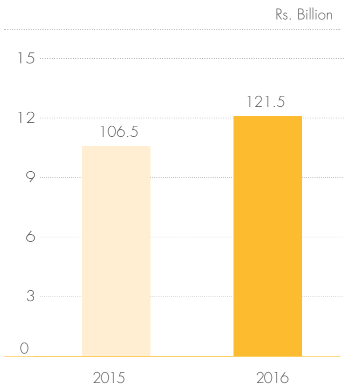
The Company demonstrated resilience against the pricing challenge to achieve commendable growth in 2016, underpinned by innovation and value addition to its products across the brand portfolio.

Highlights

- Achieved a revenue growth of 14.1%.
- Achieved a volume growth of 43% in Global Drive Brands (GDB).
- Launched DUNHILL Tube Filter cigarettes, introducing a taste flow filter.
- Launched DUNHILL Fine Cut targeting the premium segment.
- Launched Bristol Gold cigarettes for the Value for Money (VFM) segment.
- Expanded 'Abhisheka', the trade loyalty scheme from 2,500 to 6,250 outlets.
- Increased earnings per share and dividends per share by 18.1% and 48% respectively.

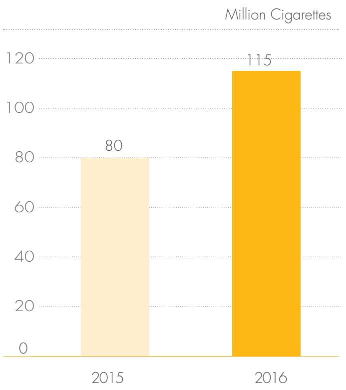
Key performance indicators

Revenue



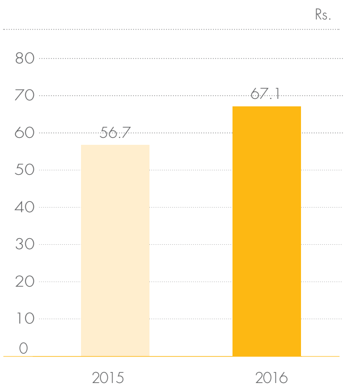
Achieved
14.1% growth

GDB Volumes



Achieved a
43% growth

Earnings Per Share



Achieved
18.1% growth

Challenges

- Volume growth hampered by an escalation in prices, driven by the increase in excise duties and introduction of VAT.
- Unlawful enforcement of regulations across our retailer network.
- Diminished disposable income of consumers.

Outlook for 2017

- Focus on strengthening the consumer value proposition across the brand portfolio.
- Focus on improving customer loyalty and communication capability.

Productivity

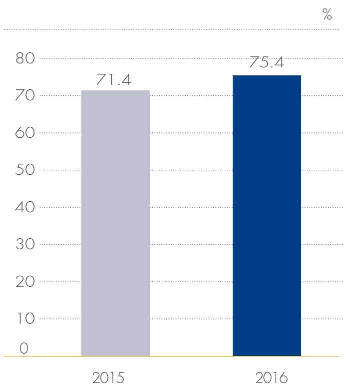
During the year, we took numerous measures to enhance the Company's efficiency and effectiveness focusing on our crop to consumer supply chain and employee productivity.

Highlights

- Achieved a 4% increase in Overall Equipment Efficiency (OEE), and as a result delivered 10% higher volumes with same resources.
- Achieved the position of 2nd Best Factory in OEE in the BAT Group.
- Invested Rs. 420 million to improve manufacturing capability, efficiency and productivity.
- Delivered Rs. 185 million in productivity savings.
- New Product Introductions (NPIs) delivered before-time in full.
- Recorded the lowest ever consumer complaints (20% reduction compared to 2015).
- Achieved highest ever leaf yield of over 88% despite the challenging operational environment and erratic weather conditions.
- Achieved 13 years of zero loss time incidents. Recognised as one of the 3 end markets in ASPAC to record zero accidents for over 10 years.

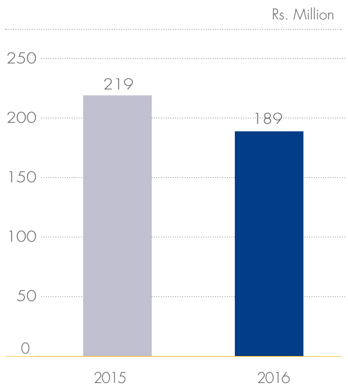
Key performance indicators

OEE



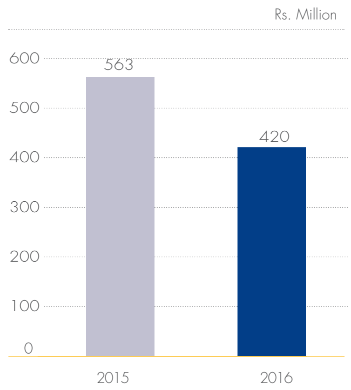
Achieved
4% increase

Productivity Savings



Achieved savings of
Rs. 189 million

Capex Investments



Invested
Rs. 420 million

Challenges

- Majority of factory employees approaching retirement.
- Volume reduction impacted both OEE and costs.

Outlook for 2017

- Continued investment in employee training.
- Further investments in more efficient technology.
- Reducing from three-shift to two-shift operation.
- Closure of leaf depots due to lower leaf demand.

DELIVERING VALUE

STRATEGIC PERFORMANCE

Winning organisation

In 2016, we built on the foundation put in place during 2015 to engage, inspire and stretch our employees, resulting in the nurturing of a team who passionately rallied to the Company's call for change in an increasingly challenging environment.

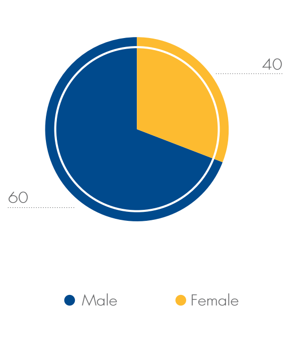
Highlights

- Developed the Strategic Agenda for 2020 and thereby provided confidence to the workforce.
- Rejuvenated management profile – average age down to 31 from 39.
- Increased diversity in the boardroom by inducting more females to the Extended Leadership Team (ELT).
- Strengthened employee engagement agenda and created on energised work place.
- Strengthened efforts on employee progression by increasing international opportunities.
- Invested Rs. 53 million in training and development.

Key performance indicators

Diversity - ELT

%

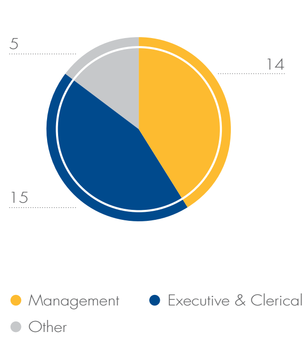


40% female

representation on ELT

Employee Progression

Number

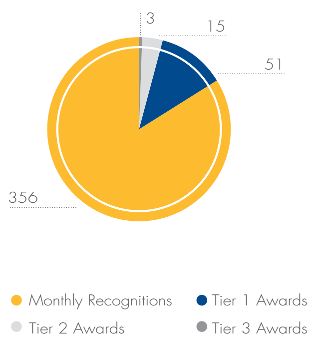


34

employees promoted

Employee Recognition

Number



425 employee

recognitions during the year

Challenges

- Challenges in attracting, motivating and retaining talent due to increased social pressure on tobacco industry.
- Low confidence of employees, post structural reviews in 2015.
- 30% retirement of skilled employees at factory floor.

Outlook for 2017

- Launch 2020 Strategic Agenda with wider participation to build employee confidence.
- Instilling new behaviours to better equip people to face increased challenges.
- Increase the proportion of young employees in factory operations.

Sustainability

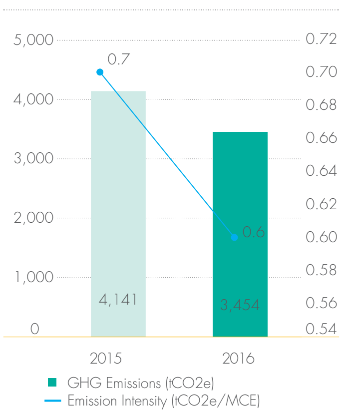
We maintained our focus on the three key areas of our sustainability agenda, and made significant progress in our sustainable agriculture, environmental and community engagement objectives.

Highlights

- Achieved 100% automation of the paddy husk fuelled tobacco curing barns.
- Further improved environmental footprint in tobacco cultivation. (eg: piloting barn emission control programme, feeding control in furnaces, integrated pest management techniques etc.)
- Adopted a new Supplier Code of Conduct which specified the minimum standards we expect our suppliers to maintain.
- Achieved 17% reduction in energy consumption across all operations.
- Introduced a Sustainable Energy Conversion Plan for 2020 and as the first step, introduced solar energy to Colombo Factory.
- Invested Rs. 42.1 million to improve environmental, health and safety standards across all operations.
- Positively impacted the lives of 72,964 beneficiaries in 18,864 families through our flagship CSI initiative, SADP.

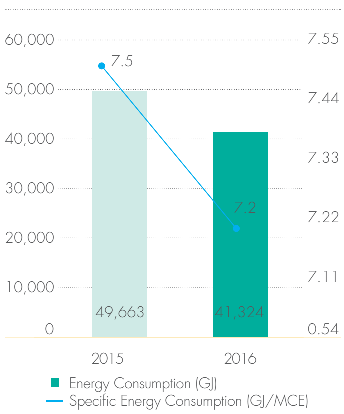
Key performance indicators

Green House Gas Emissions



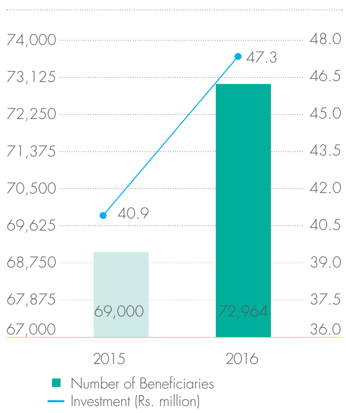
Achieved
17% reduction

Energy Consumption



Achieved
17% reduction

Investment SADP



Invested
Rs. 47.3 million

Challenges

- Unlawful enforcement of regulations created confusion among farmers and barn owners and resulted in litigation to protect their rights to grow and cure tobacco.

Outlook for 2017

- Further investments in adopting global best practices.
- Continuous legal support for farmers and barn owners to overcome unlawful enforcements.
- Continued support to SADP.

DELIVERING VALUE

FINANCIAL CAPITAL

Financial capital inputs are used to fund our daily operations and for capital investments. Sources of financial capital include equity financing and the cash generated from our operations.

Material aspects covered	Economic performance, Growth, Productivity, Excise and taxes
Relevant strategic pillars	

	Metric	2016	2015	% y-o-y
Assets	Rs.million	22,555	18,673	21
Shareholders' funds	Rs.million	3,485	2,885	21
Gross revenue	Rs.million	121,525	106,491	14
Operating profit	Rs.million	20,369	17,517	16
Profit before income tax	Rs.million	21,219	18,078	17
Profit for the year	Rs.million	12,559	10,634	18
Earnings per share	Rs.	67.05	56.77	18
Dividend per share	Rs.	66.80	45.15	48
Net asset value per share	Rs.	18.60	15.40	21

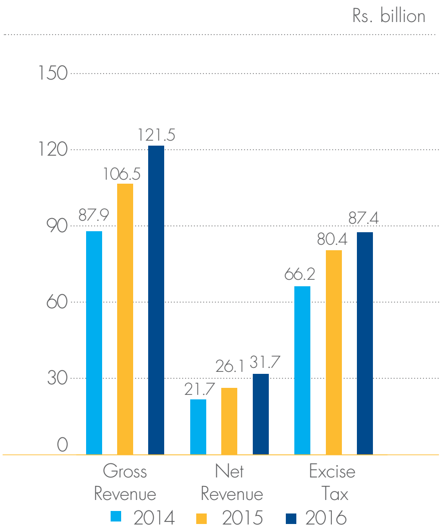
FINANCIAL CAPITAL

VOLUMES 3.9bn - 4% ▶ REVENUE Rs.121.5bn +14.1% ▶ PAT Rs.12.6bn +18.1% ▶ NET CASH FROM OPERATING ACTIVITIES Rs.14.7bn +40% ▶ EPS Rs.67.05 +18.1%

CTC is committed to delivering long-term shareholder value despite significant challenges to the business. Financial results for 2016 reflect the trend in sustainable high performance with top line growth of 14.1% to Rs. 121.5 billion and 18.1% growth in profit after tax to Rs. 12.6 billion. Management continually review the assets, contracts and operations for opportunities to better utilise assets for growth, reduce costs and improve efficiency. These initiatives contribute significantly to maintaining delivery of value to stakeholders.

REVENUE AND PROFIT FROM OPERATIONS

The strong financial performance in 2016 is reflected in net revenue for CTC, which grew by 22% to Rs. 31.7bn.

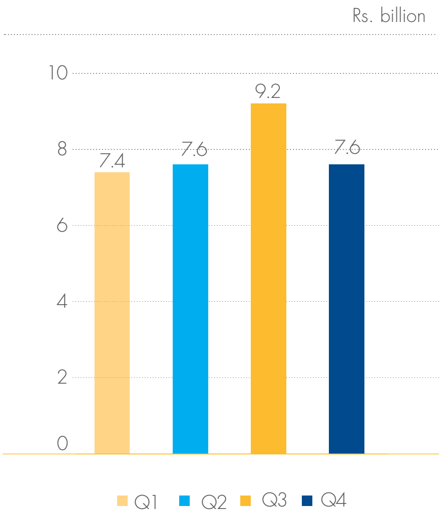


Gross revenue increased by 14.1% to Rs. 121.5 billion primarily due to the 01 January 2016 price increase and speculative sales in the first three quarters of the year.

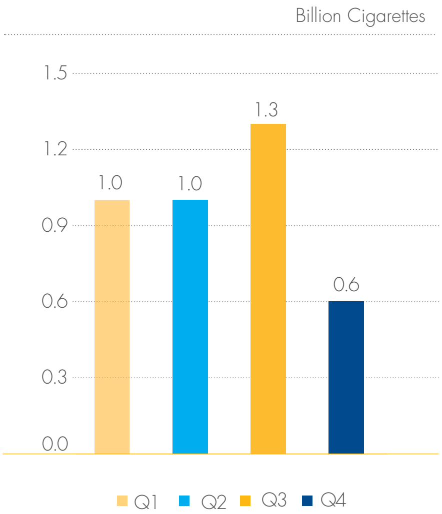
The unprecedented excise-led price increase in the 4th quarter resulted in volumes halving from previous quarters due to the impact on consumer affordability coupled with the speculative volumes in the 3rd quarter in anticipation of the 4th quarter price increase.

Although CTC contributed Rs. 87.4 billion in excise taxes towards government revenue, this was Rs. 13.2 billion less than anticipated as a result of the 4th quarter erosion.

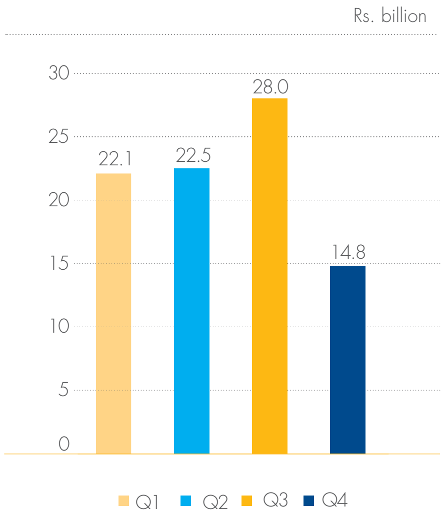
CTC Net Revenue



Volumes



Excise Tax



DELIVERING VALUE

Whilst the above results illustrate a strong growth year on year, the 4th quarter Government taxation strategy poses a risk for the volume performance in 2017; the impact on consumer disposable income coupled with the widening price gap between legitimate cigarettes and non-regulated tobacco products (which continued to grow volume during the year) will reduce volumes for 2017 and consequently constrict government revenue.

The 63% increase in other operating expenses compared to 2015 are attributable to constructive liabilities and obligations on behalf of key business partners in the value chain. Other drivers included an increase in marketing investment to strengthen the value proposition of key brands and route to market infrastructure as well as increased legal expenditure with the specific focus on unfair enforcement and tobacco regulation.

The year in review saw raw material costs increase by 10% as a consequence of the rise in imported leaf required due to unlawful enforcements and adverse weather conditions experienced in parts of the country. Heavy flooding in May destroyed nurseries and led to late harvests of the crop during the 'Yala' season.

INVESTMENT FOR GROWTH

Despite the decline in volumes in the 4th quarter, the Company remained committed to invest in its brands to underpin sustainable long-term returns, establishing a portfolio that addresses the evolving consumer preferences in the market. 2016 has seen a significant focus in driving value through the DUNHILL family with the launch of DTOLL Blue and Grey with Tube Filter and 'Fine Cut' as additions to join SWITCH in the premium segment. The Company's continual commitment to product quality, through a more premium product mix with DUNHILL brand has gathered momentum with strong volumes leading to a growth in the premium segment of 43% to 115 million sticks.

JPGL retained its position as the market leader and the most valuable brand in our portfolio. Bristol Gold was launched during 2016 to strengthen the portfolio and cater towards an increasing need for a value for money offer. The results post the price increase have been encouraging.

CTC continues to improve its trade distribution model with the expansion of the flagship loyalty programme for our valued trade partners - "Abhisheka", with the key objective to retain volume base and support our trade partners.

CTC has a disciplined approach to capital investment. Expenditure is made to improve the efficiency of production and improve the experience of consumers through product innovations with a focus on quality. Capital investments of Rs. 420 million, were made in 2016 in order to replace obsolete machinery and upgrade existing machinery to enhance efficiency and improve product quality.

CASHFLOW AND LIQUIDITY

The Company had yet another strong year and delivered improved cash flow results, with no debt funding during the year. Close monitoring of the cash flow requirements and regular review of the investment position resulted in the optimisation of interest income, which increased by 51.5% in 2016 to Rs. 850 million.

Higher profit, effective working capital management and lower tax payments (as a result of the one-off Super Gains Tax in 2015) ensured a 40% increase in net cash flows from operating activities. Distributor credit exposure remained fully covered through bank guarantees and the distributor financing schemes.

DISTRIBUTIONS AND RETURNS TO SHAREHOLDERS / CREATING VALUE FOR SHAREHOLDERS

Profit before tax grew 17.4% to Rs. 21.2 billion, reflecting improvements in the top line as a result of increase pricing together with productivity and cost management initiatives helping to maintain operating margins. Operating margins until the final quarter had increased from 67.1% to 71.1%, however this declined to 66.8% for the full year as a result of the significant excise increases.

Despite the myriad of challenges presented by both the regulatory and competitive environment, the Company continued to generate sustainable value to its shareholders in 2016.

Year on year, both dividends per share and earnings per share grew by 47.9% and 18.1%, respectively. The positive trend in dividend payments is noteworthy since only some benchmarked companies pay a dividend. Additionally, when measured on a five year annualised basis, both dividend per share and earnings per share growth ranked the highest relative to the Top 20 listed companies.

The Company's share price closed the year at Rs. 806.50 from Rs. 992.50 the previous year, reflecting the downturn in the Colombo Stock Exchange.

		2016	2015
Earnings per share	Rs.	67.05	56.77
Dividend per share	Rs.	66.80	45.15
Net Assets per share	Rs.	18.60	15.40
Share Price	Rs.	806.50	992.50
Dividend payout ration	%	99.6	79.5

Emma Ridley
Finance Director

24 February 2017

DELIVERING VALUE

MANUFACTURED CAPITAL

As a manufacturing organisation, we rely on our fixed assets and continuing capital investments to produce and deliver our products efficiently and safely. The quality of our manufactured capital is also a vital element in reducing the environmental footprint of our operations and ensuring a hazard-free environment for our employees.

Material aspects covered	Growth, Productivity, Minimising environmental impacts of our operations, Occupational health and safety
Relevant strategic pillars	

Highlights of 2016

	Metric	2016	2015
Property, plant and equipment	Rs. million	2,268	2,063
Capital expenditure	Rs. million	420.2	562.9
Energy reduction	% y-o-y	17	(8)*
Overall Equipment efficiency	%	75.4	71.4
Employee injury rate	Number	0	0

* Energy consumption in 2015 was 8% higher than the previous year.

Our efforts during the year were aimed at,

(1) Improving technology footprint

(2) Improving productivity and efficiency levels across the manufacturing process

(3) Enhancing the energy efficiency of our manufacturing operations

(4) Ensuring an injury-free working environment

IMPROVING TECHNOLOGY FOOTPRINT

The year under review was characterised by significant changes and improvements to our technology footprint.

CTC's Colombo factory installed and commissioned a newly rebuilt packing machine to enhance productivity, thereby replacing a machine which had served for over 40 years at an approximate cost of Rs. 340 million. This introduction was the first in almost 20 years and will add more agility and capability in terms of technology to the factory. Investments were also made in replacing obsolete technology in other parts of the supply chain; these include primary production and automation of green leaf processing to ensure the long-term sustainability of our production entities.

IMPROVING PRODUCTIVITY AND EFFICIENCY LEVELS

Integrated Working Systems (IWS)

A globally renowned framework for improving manufacturing performance, IWS was implemented at CTC, with the objective of transforming the manufacturing processes to achieve financial and operational improvements. Key pillars of IWS include work process improvement, progressive maintenance, education and training and quality among others. Benefits accrued to CTC included, improved equipment efficiency rate, reduction in the number of stops and increase in throughput.

Enhanced Overall Equipment Efficiency (OEE)

We recorded significant OEE improvement in 2016 with the factory achieving a 4% increase in OEE from the reported 71.4% in 2015 to 75.4% by 2016. The highlight for 2016 was our factory being recognised as the 2nd best among all the manufacturing plants in the BAT group for OEE.

Delivering NPIs Before Time – In Full

In 2016, a key priority of CTC's supply chain was to ensure market delivery "Before Time - In Full". This attitude enabled us to deliver expectations of the organisation well ahead of plan, resulting in additional benefits to the business, particularly in the launch of products such as DUNHILL Tube Filter. This achievement was a first within the BAT South Asia Cluster on top of 5 for other NPI's. The response time for the supply chain team to deliver, from request to making available for distribution, received commendation from across the Group.

Focus on Product Quality

Reducing Consumer Complaints

The year was also very successful in terms of product quality with CTC recording the lowest number of consumer complaints in its history. Complaints reduced by 20% during the year, attesting to our continuous efforts to provide innovative and high-quality product solutions.

Finished Product Index (FPI)

FPI is an indicator which measures variability in product, and in 2016 CTC recorded a figure above 85 which is well beyond the industry average indicating consistently superior quality across our entire portfolio.

Productivity Savings

Over 200 projects of varying magnitudes were undertaken as part of the 2016 productivity savings initiatives which resultantly yielded over Rs. 189 million in savings. Major contributors to these savings were non-product related procurement savings initiatives, operating model changes in manpower services and improvements in energy efficiency

Energy Efficient Manufacturing Technology

During the year the Company carried out numerous initiatives targeted at improving energy efficiency including the introduction of solar power to reduce the dependency on fossil fuels, enhancing energy efficiency of our factory operations and widening employee engagement in energy saving initiatives. As a result, the Company's energy consumption reduced by 17% in 2016. (Refer pages 105 to 106 for more information)

Injury-free Working Environment

CTC recorded another year of zero accidents, marking its 13th consecutive injury-free year. It is one of just three BAT companies in the Asia Pacific region to have achieved such a strong occupational health and safety record. Ongoing health and safety initiatives include PULSAR, NEARMISS and monthly safety walks and briefings among others (refer pages 99 to 100 for more information)

DELIVERING VALUE

SOCIAL AND RELATIONSHIP CAPITAL

Strong relationships with our stakeholders is fundamental to ensuring continuous and effective operations, sustainably achieving our growth objectives and driving needs based development in the communities we operate in.

Highlights of 2016

		Metric	2016	2015
Consumers	New product launches/innovation	Number	5	1
	Product responsibility - incidences of non-compliance	Number	0	0
	Marketing communications-incidences of non-compliance	Number	0	0
Distributors and retailers	Abhisheka - Number of retailer outlets	Number	6,250	2,500
	Total rewards granted (Abhisheka)	Rs. million	70.2	34
	POSITIVE - Number of distributor staff supported	Number	475	450
Tobacco farmers and barn owners	Value of purchases	Rs. million	875	790
	Barn owners covered through STP	%	100	100
	Barn automation	%	100	65
	Investment in leaf research and development (Agronomy)	Rs. million	21.8	13.9

Our social and relationship capital comprises of the following elements and our value creation to these stakeholders during the year is discussed in the subsequent section.

Social and Relationship Capital

Consumers

Business Partners

Tobacco Farmers and Barn Owners

Distributors and Retailers

Non-leaf Suppliers

Brand Value

OUR CONSUMERS

Adult consumers are at the heart of our business and their changing needs are a vital factor in driving innovation, product development and brands. Our goal is to satisfy consumer needs in a responsible manner, effectively addressing the regulators' expectations on how our products should be marketed.

Material aspects covered	Scientific research, Product innovation, Marketing practices, Youth smoking prevention
Relevant strategic pillars	

Engaging with consumers

Consumer engagement is facilitated through our 72,000 strong retailer network. We also rely on an annual General Consumer Survey conducted by a reputed third party agency to understand consumption trends and disposition towards our brands, the findings of which form a key input to our marketing strategy. Furthermore, a dedicated hotline enables adult consumers to report their grievances and concerns.

Enhancing the consumer experience

Our product strategy during the year was targeted towards adding value across our brand portfolio to enhance the overall adult consumer experience, particularly given the escalation of prices during 2016. Accordingly, we introduced the taste flow filter to the Sri Lankan market through the launch of DUNHILL Tube Filter cigarettes. We also unveiled DUNHILL Fine Cut - a super-premium offering with the Re-loc packaging feature, which allows consumers to re-seal the pack after opening, and retain the freshness. The Company launched Bristol Gold which had an improved blend thereby offering a better consumer experience to the VFM segment.

Harm reduction and product responsibility

Harm reduction has continued to be a key priority for the Group, and considering the health risks attributed to smoking we remain committed to addressing the negative impacts of our business. As a subsidiary of a multi-national organisation, we benefit from the knowledge transfer and research capabilities of our parent. BAT continues to make inroads in scientific research and product innovation aimed at reducing harm and has made significant progress in developing a sustainable pipeline of next generation products.

BAT's progress in harm reduction;

- First international tobacco company to launch a vapour product (e-cigarette in the UK).
- Launched a tobacco heating product, an electronic device that heats a nicotine-containing liquid into an inhalable vapour.
- Launched 'Glo' in Japan, which heats tobacco, producing significantly less toxicants than a conventional cigarette.
- First ever tobacco company to have a nicotine inhalation product licensed as a medicinal product.

DELIVERING VALUE

Responsible marketing practices

We understand the importance of providing clear and meaningful information on the risks attached to our products to enable adult consumers to make informed choices. The Company's principles and approach towards marketing ensures that our products are aimed only at adult smokers and not designed to appeal to those below 21 years of age. CTC's marketing communications are governed by BAT's International Marketing Principles (IMP) which are in some instances more restrictive than the NATA Act and ensure that all our marketing activities encompass the following key characteristics.

During the year under review, there have been no breaches of any laws or regulations and no negative verdicts, judgements or court orders against the Company in relation to our marketing practices or communications.

We will not mislead about the risks of smoking.	We will only market our products to adult smokers.	It should always be clear to our consumers that our advertising originates from a tobacco company and that it is intended to promote the sale of our tobacco products.	We will not seek to influence the consumer's decision about whether or not to smoke, or how much to smoke.
Truthful	Targeted	Transparent	Trusted

BAT's International Marketing Principles

Product and service labelling

According to the laws and regulations in effect we are required to display the following on the packaging of all our tobacco products:

- Trilingual text health warning;
- TAR and Nicotine content; and
- Pictorial Health Warning covering 80% of the surface area of the front and back our tobacco packaging.

During the year under review there were no instances of prosecutions or findings of non-compliance to this regulation.

Youth smoking prevention

In line with the Group's IMP with regard to preventing under-age smoking, we have implemented formalised processes to ensure that we market our products only to adults above the age of 21. We continue to support our retailers and traders to conduct youth smoking prevention activities on an ongoing basis; this includes providing training on checking proof of identity, supplying in-store posters and materials and increasing awareness on existing laws and regulations.

OUR BUSINESS PARTNERS - TOBACCO FARMERS / BARN OWNERS

We work with over 20,000 tobacco farmers who are critical to the success of our business and our value proposition to them ensures an enabling environment in which they are self-sufficient, sustainable and prosperous. In addition to securing our supply chain and ensuring the highest product quality, our approach aims to empower and address socio, economic and environmental challenges facing tobacco farmers through a range of pragmatic solutions.

Material aspects covered	Supporting farmers, Environmental impacts of growing tobacco, Agricultural practices
Relevant strategic pillars	

TOBACCO FARMING IN SRI LANKA

The Facts

- Zero hindrance to paddy cultivation as tobacco is only cultivated when water required for paddy is insufficient.
- Less than 0.1% of the country's agricultural land is used for tobacco growing.
- Tobacco cultivation requires 1/7th of the water required for paddy.
- Fuel wood is not used for curing as barns are operated 100% with paddy husk.

CTC's Contribution

- Guaranteed pricing and 100% purchase of tobacco.
- Agricultural extension and support services.
- Pension scheme for all tobacco farmers.
- Community support including scholarships for farmers' children (university education).
- Support during natural disasters.

The Importance

- Infusion of Rs. 1.3 billion into the rural economy through farming.
- Stable source of income to farmers due to guaranteed price and purchase.
- Higher return for farmers compared to other crops.
- Promotes employment generation and socio-economic progress in cultivation areas.
- Support farmers to avoid high indebtedness.

The Challenges

- Farmers being pressurised unlawfully by activists and Government Officials to abandon tobacco cultivation.
- Barn owners in certain areas are unable to obtain Environmental Protection Licenses due to the Government's unwillingness or delay in processing applications submitted.

DELIVERING VALUE

CTC does not own tobacco farms or directly employ farmers, but maintains a high level of engagement with the tobacco farming community through the Company's dedicated leaf officers. Engagement is facilitated through agricultural extension and support services, multi-dimensional community support initiatives, and farmer appreciation programmes.

Strengthening supplier standards

In 2016, the Group's Social Responsibility in Tobacco Production (SRTP) was replaced with the new Sustainable Tobacco Programme (STP), a global, industry-wide initiative drawing on industry best practices. STP includes more stringent processes, a broader scope and more frequent on-site reviews. It is also aligned to external standards such as those of the International Labour Organisation.

The primary objective of STP is to drive continuous and sustainable improvements across the global supply chain through sharing best practices and adopting a more robust approach to monitoring.

STP governance

The implementation of the programme follows robust stakeholder engagement and it is governed through a comprehensive framework of policies and procedure manuals, which ensure the standardisation and integrity of the programme. It also provides a framework for continuous improvement through annual self-assessments, on-site reviews and benchmarking for our leaf suppliers.

STP framework

The programme consists of four key pillars under which objectives, action plans and performance indicators are clearly articulated. Since the new framework was only introduced in 2016, a full year of results is still unavailable and will be disclosed fully in the Company's next Annual Report.

Global STP in numbers

- 6 manufacturer's ownership
- 4 guiding pillars
- 9 tobacco types
- 100% of leaf suppliers assessed
- 35 countries
- +150 sustainability indicators

Crop	Seed testing and certification	Environment	Sustainable management of water, soil and forests
	Soil analysis and fertilizer management		Pollution control
	Tobacco crop management best practices		Waste management
	Rational use of agrochemicals and other ways for pest and disease control		Recycling
	Crop hygiene and contaminants control		Fuel and energy reduction and GHG reduction
	Farmer profitability		Biodiversity
People	Child labour prevention	Facilities	Hygiene in the working place
	Safe working environment		Health
	Fair treatment		Safety and protection
	Freedom of association		Prevention of accidents and emergencies
	Legislation compliance		Medical facilities
	Terms of employment		Facility security

STP framework

VALUE CREATION TO FARMERS

Our approach described below embodies the multi-faceted value proposition that we offer to tobacco farmers, which encompass economic, social and environmental benefits.

Farmer income
We enable farmers to have an alternate source of income.

Natural resources
Propagate sustainable agricultural practices .

Skills, knowledge and labour
We provide agricultural extension services and training.

Infrastructure
Ensuring tobacco growing areas are viable places to live and work.

Community networks
Build and strengthen farmer networks.

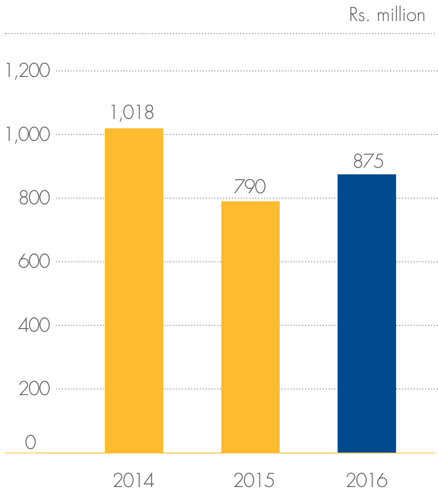
Farmer income

Tobacco is grown alongside a range of crops allowing farmers to have an alternate source of stable income. The pricing paid for the crop is guaranteed at the start of each growing season agreed in collaboration with Government Officials and farmer organisations. The purchase quantities are also assured through a forward contract system, thereby enabling farmers to have a guaranteed income. In addition, farmers also receive:

- Loan facilities to help meet financial requirements during the crop cycle inclusive of flexible payment terms to minimise farmers' financial burden in periods of adverse weather; and
- Pension Scheme, for farmers, which is maintained with contributions from farmers and the Company, and managed by farmer organisations to ensure a steady income after retirement.

As a policy, the entirety of our leaf requirement is sourced locally; however, in periods of short supply or crop failure, we are compelled to import the shortfall. In 2016, our total payments to farmers amounted to Rs. 875 million, a 10% increase over the previous year.

Leaf purchases



DELIVERING VALUE

Natural resources

We provide guidance to farmers on sustainable agricultural practices with the objective of preserving soil health, forestry and bio-diversity. Focus areas in training include:

- Application of site specific fertilizers;
- Soil mapping conducted every five years to gauge quality of soil;
- Introduction of hybrid seeds;
- Eliminating the use of fuel wood in curing barns which are now operated solely on paddy husk;
- Use of Integrated Pest Management (IPM) systems helps tobacco farmers reduce their dependence on chemical pesticides and encourage the use of organic fertilizers;
- Soil conservation techniques such as Sloping Agricultural Land Technology (SALT); and
- Providing all required agricultural inputs for cultivation of the crop on credit basis. This not only supports our farmers but also ensures that only approved fertilizers that meet specified quality standards are used for tobacco cultivation eliminating any adverse residual impacts of Heavy Metal Contamination of the Soil.

Meanwhile, the barn automation initiative (which results in lower consumption of energy and ultimately lower emissions) was further expanded to cover 686 (or 100%) of the barns during the year under review.

Skills, knowledge and labour

We provide continued guidance and field level support to our farmers to improve their productivity and yield while implementing agricultural best practices. These programmes are facilitated through our 35 extension officers, who visit registered farmers at least on a fortnightly basis. In addition to these ongoing training programmes, every year around 10 farmers are given the opportunity to obtain overseas exposure on emerging agricultural best practices, new planting methods, pest management and other aspects through fully sponsored foreign training programmes.

Infrastructure

We strive to ensure that tobacco growing areas are viable places to live and work through providing access to technology and investing in community projects.

Community networks

Through the integration of 4,100 of our tobacco farmers to our flagship CSI initiative, SADPUltra, we help to build and strengthen farmer networks and provide an effective platform for sharing best practices (refer page 111 for further discussion on SADP).

We also provide annual scholarships for farmers' children to pursue higher education opportunities, based on academic merit. During the year, we granted 6 such scholarships to deserving students which is 100% of the requests we have received.

Addressing social challenges in agriculture

We understand that the support we provide our farmers is particularly important in current times, particularly given the rising challenges in agriculture - ranging from the degradation of natural resources and limitations in arable land to child labour and urban migration. BAT subsidiaries continue to collaborate with stakeholders around the world, focusing on a range of key issues including female empowerment, afforestation, clean water and sanitation. BAT is also a co-founding member of the Eliminating Child Labour in Tobacco Growing (ECLT) Foundation and continues to play an active role together with the ILO, Save the Children and industry counterparts.

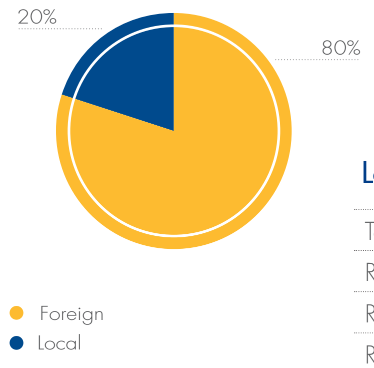
CTC's revised Standards of Business Conduct (SOBC) which is based on the BAT Group's SOBC, contains a specific section on human rights, which details our commitments to eliminate child labour, ensure no exploitation of labour and respect for freedom of association. These standards are applicable to all BAT subsidiaries and their suppliers and is part of the Group's continuing commitment to the UN Declaration of Human Rights.

OUR BUSINESS PARTNERS - NON-LEAF SUPPLIERS

The Company's non-leaf suppliers are local and foreign parties from, which we source packaging and other raw materials. We have been successful in nurturing long-standing relationships with our non-leaf suppliers, underpinned by a systematic approach towards managing common risks and generating shared value.

Material aspects covered	Non-leaf relationships
Relevant strategic pillars	

PROFILE OF OUR NON-LEAF SUPPLIERS – DIRECT MATERIAL SUPPLIERS



Long-term partnerships

Total direct material suppliers	22
Relationship of 25 years or more	4
Relationship of between 10 - 25 years	8
Relationship of less than 10 years	11

Social/Environmental factor	Criteria
Occupational health and safety (OHS)	• Extent to which risk assessments (such as fire protection and prevention) are performed and systems are in place to track regulatory requirements. • Extent to which an OHS organisation and training structure is in place. • Monitoring and recording of OHS performance. • Application of the OHS policy and requirements.
Environmental management principles	• Extent to which suppliers have identified, communicated and applied strategies regarding environmental management principles. • Systems in place to track regulatory requirements. • Performance of environmental impact assessments. • Extent to which environmental policy is applied. • Efforts to produce more environmentally responsible products. • Attention given to sustainability of raw materials.

Sustainability considerations in supplier screening

We employ global best practices prescribed by BAT in enlisting, selecting and evaluating suppliers. The BEST (Business Enabler Survey Tool) is a survey based tool used to assess the business enablers a supplier has in place, provide a measure of the risk the Company is exposed to, and identify joint improvement opportunities. Through positioning suppliers against excellence criteria and robust practices, we are able to objectively rate our suppliers, identify 'pressure points', and appropriately manage identified risks. During the year, we further strengthened our non-leaf supplier screening mechanisms by incorporating contingency planning as well as social and environmental sustainability criteria as listed in the table.

In instances where the prescribed criteria are not met by a supplier, the Company provides guidance on how the necessary systems and tools can be implemented, thereby encouraging the effective identification, management and risk evaluation of sustainability topics. During the year, 10 of our direct material suppliers were screened using this criteria.

Supplier development

We also invest considerable time and effort to develop local suppliers to meet expected international quality standards. CTC has been successful in developing local suppliers, especially in the printing category, allowing us to gradually shift from international printing material suppliers to local parties.

DELIVERING VALUE

OUR BUSINESS PARTNERS - DISTRIBUTORS AND RETAILERS

The platform created by our retailers to facilitate indirect one-to-one consumer engagement is vital in obtaining an insight into consumer behaviour.

Material aspects covered	Non-leaf relationships
Relevant strategic pillars	

We continuously strive to build sustainable and mutually beneficial relationships with our trade partners, through understanding each other's strategies and identifying potential areas for collaboration.

CTC Distribution Network

An island-wide network of 16 distributors and 72,000 retailers

Long-term partnerships

Total distributors	16
Relationship of 50 years and more	12
Relationship between 25 - 50 years	3
Relationship of less than 25 years	1

OUR DISTRIBUTORS

Distributor	Length of Relationship (Years)
Colombo	
Arunadisi Ltd	88
W D Paulis Appuhamy & Co.	84
Samaranayake & Co (Pvt) Ltd.	65
Jayawardene & Sons	32
Excel Distributors (Pvt) Ltd	12
South	
S U Mohamed Hadjiar (Pvt) Ltd	85
K M Siyaneris (Pvt) Ltd	85
P D Pedoris Appuhamy & Co. (Pvt) Ltd	85
Wickraratne Distributors (Pvt) Ltd.	30
Central	
Bibile Trading & Forwarding Agency	72
Gamini Bros Ltd	60
Ampara MPCS Ltd	52
Amirthans Distributors (Pvt) Ltd	30
North	
D S Gunasekera Ltd	60
G H A De Silva & Co.	60
Kurunegala Merchants Ltd	50

Engagement with distributors/ retailers

The Company maintains a high level of engagement with its business partners, facilitated by the following mechanisms:

- The Customer Voice Survey: This survey is administered to CTC's exclusive distributors and retailers with the objective of gaining insights on customer expectations and identifying areas for mutual value creation. The survey has a broad coverage of all relevant market segments, including general trade, modern trade, hotels, restaurants and cafes among others. The feedback thus obtained forms an input in formulating retailer engagement mechanisms, trading terms and conditions, and strategies for enhancing service levels.
- Distributor Staff Awards: The Awards are held annually to acknowledge and reward the performance of our island-wide distributor staff. In 2016, 102 awards were presented in recognition of the contribution made by our exclusive channel partners.
- In addition to the above, ongoing forms of engagement include regular price communications, product and brand awareness programmes and one-to-one engagement.

Value creation to business partners – Distributors and Retailers

The Company facilitates sustainable value creation to its business partners through two ongoing systematic initiatives, which are aimed at building capacity and developing core competencies. The POSITIVE initiative is designed to support our distributors and their representatives while the Abhisheka programme aims to support and empower our high-performing retailers. During the year, we made significant progress in expanding the scope and coverage of both these initiatives.

OUR DISTRIBUTORS


Kalana Hewamallika


Chandana Wickramaratne


Niral Kadawatharachchi


Harith Jayawardene


Thiwanka Jayakody


Sivapathesundaram Gnanasambanthen


Mohammad Mumtaz


Sellathurai Amirthalingam


Krishanthi Yahampath


Kamani Samajeewa


Swineetha Gunaratne


Roshan Samaranayeke


Muditha Wijesinghe


Mohammad Hamza


Chaddantha Wijesinghe


Piyadasa Lekamwasam

DELIVERING VALUE

ABHISHEKA FOR RETAILERS

A trade loyalty programme, which offers the Company's high performing retailers a range of discounts and offers on a variety of products and services, including consumer electronics, leasing services, hospitality and education among others.

A 24-hour dedicated hotline has also been established to facilitate effective engagement with members, who are also informed of offers through regular SMS updates.

Progress made in 2016

- Expanded the network from 2,500 outlets to over 6,250 retail outlets island-wide.
- Increased incentives and rewards based on volumes and visibility solutions.

POSITIVE FOR DISTRIBUTORS

Initiative aimed at improving the overall business sustainability of around 475 distributor representatives through, training programmes designed to develop core competencies and capabilities.

Progress made in 2016;

- Widened the coverage of the programme to 475 distributor representatives.
- Supported capacity development at supervisory and managerial level.
- Focused on enhancing distributor service standards.
- Shared insights into customer behaviour and emerging trends.

BRANDS

Brands

DUNHILL

- DUNHILL as a brand has celebrated 10 years in the market.
- Caters to the premium consumers in the country.
- A brand that is synonymous with innovation and providing a novel consumer experience.
- Enjoys 3% brand share among consumers.

JOHN PLAYER GOLD LEAF (JPGL)

- JPGL, also known as "Gold Leaf" is a brand name that has been present in the market for over 65 years.
- It caters to the Aspirational Premium segment.
- JPGL is the most widely known brand among the consumers with 83% brand share.

BRISTOL

- Bristol caters to the 'Value for Money' segment of consumers.
- The brand has seen a rapid growth during the past 2 years as price pressures in the market have led to shifts in consumption patterns.
- Currently enjoys around 6% brand share among consumers.

CAPSTAN

- Capstan caters to the low segment and is the only non-filtered cigarette in the market.
- Enjoys 8% share among consumers.

HUMAN CAPITAL

The skills, attitudes, diversity and drive of our people are what enable us to consistently deliver value despite the unprecedented challenges facing our industry today. We in turn, offer our employees exciting opportunities for career progression and skill development in a dynamic and safe work environment.

Material aspects covered	Employee engagement, Talent attraction, Training and development, Work place human rights, Occupation health and safety
Relevant strategic pillars	

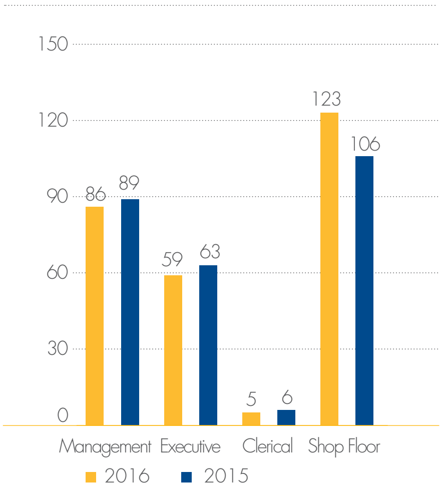
Highlights of 2016

	Metric	2016	2015
Employees	Number	273	264
New recruits	Number	40	20
Value added per employee	Rs. million	413	379
Investment in training	Rs. million	53	49
Training	Hours	4,074	5,650
Average training hours	Hours	26.8	21.4
Training coverage ratio	%	85	81
Profit per employee	Rs. million	46	40
Female participation rate	%	16	17
Injury rate	%	0	0
Employee turnover rate	%	7.3	7.2

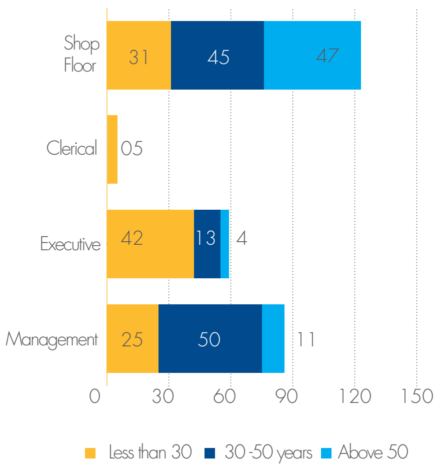
We are one of Sri Lanka's most preferred employers and continue to make substantial investments in the empowerment, development and retention of our employees, who have the right skills and fortitude to ensure the delivery of our strategy. Our team consists of 273 high-performing, employees who are diverse in their gender and age representations.

DELIVERING VALUE

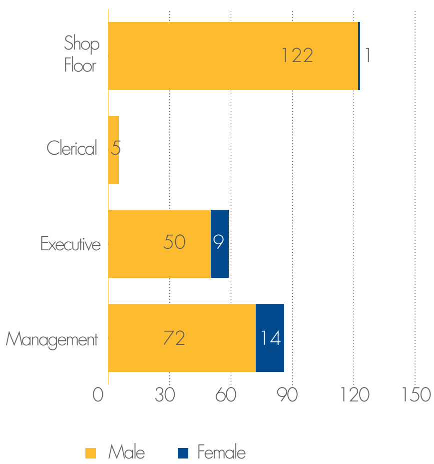
Employees by category



Employees by category and age

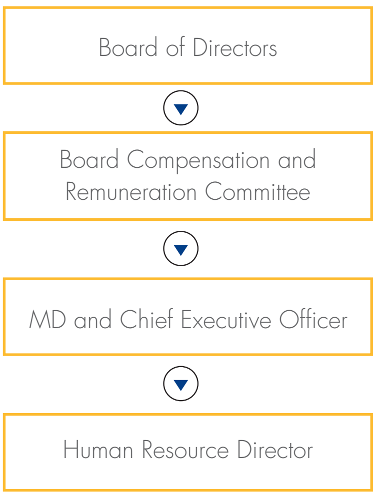


Employees by category and gender



HR GOVERNANCE AND POLICY FRAMEWORKS

The Company's human resource related aspects are governed by best in class, formalised policy frameworks and governance structures, which ensures transparency, uniformity in application and fair treatment of all employees.



Our employment policies and procedures are designed to ensure,

- Equal opportunities to all potential and existing employees
- Decent work and equality for all employees, irrespective of gender, age, ethnicity or disability
- Harassment free and non-discriminatory work environment
- The protection of labour rights and promote a safe and secure working environment

OUR PEOPLE STRATEGY

The Company's long-term people strategy is centred on three pillars (refer diagram below) which aim towards creating a Winning Organisation through nurturing high-performing leaders, who will lead the delivery of the Company's strategy and inspire people to deliver outstanding results. Our strategy is broadly aligned to the human capital approach of BAT, which has been ranked as a top employer in many markets around the world.

BAT's people strategy

The Company's HR strategy during the year was aligned to its business and sustainability objectives and focused on the following;

Energising organisation around Company's Strategic Agenda

Enhance employee engagement agenda to foster cohesion and team spirit

Developing next generation leaders

Promoting diversity and creating a safe work culture

Energising Organisation Around Company's Strategic Leadership Agenda

Developing the 2020 ambition

The Executive Committee (EXCO) together with the Extended Leadership Team (ELT) reviewed the current operating landscape and developed a strategic agenda for the Company at the beginning of the year. This agenda identified six focus areas (illustrated below), which needed to be place to achieve the 2020 ambition.

These six focus areas were converted to well defined programmes and specific action on each area was initiated during the year.

Rallying the organisation

The next key step for success was creating the belief among the workforce about the 2020 ambition and building confidence that the identified six focus areas were the path to success. The 'One Tribe-One Mission-One Game plan' campaign was developed and launched during the year with this in mind. The strategy was launched in May 2016 to the wider organisation and frequent progress updates via different forums ensured this message was reinforced among the employees.

Creating ownership

We have continued to place emphasis on developing talent from within by stretching and supporting our high-performing young employees. During the year, we encouraged the ELT to drive strategy in a more proactive manner through empowerment and wider scope of responsibilities. The ELT consist of selected direct reports to the Executive Committee (EXCO) and represent CTC's next generation of dynamic leaders.

Enhance Employee Engagement Agenda to Foster Cohesion and Team Spirit

In addition to the many platforms already in place to facilitate employee engagement (refer page 61), we sought to further strengthen organisation-wide communication during the year. Focus was placed on providing more opportunities for employees to engage and maintain an open dialogue with the Company's senior management on current business realities and the strategic leadership agenda. The main engagement initiatives launched during the year include:

- **Monthly Business Update**

  Aligned with the year's central theme of 'One Tribe', the monthly Business update meetings were revamped and relaunched as "Tribal Talk". The meetings are now facilitated by the EXCO with the participation of all executive and management level employees. The key highlights of Tribal Talk include inducting new employees to the 'CTC Tribe' and recognise high performers of the month. In addition to, encouraging two-way communication, Tribal Talk has also facilitated improved employee engagement and promoted camaraderie and team spirit among employees.

- **Engaging factory workers**

  The management engages frequently with the factory workers through monthly small group meetings, which are held with the participation of all factory employees. In addition, the management conducts structured meetings with union representatives on an ongoing basis as follows:

Shift meetings	Daily meetings	Monthly meetings	Quarterly meetings
Shift executive/ Union representative	Industrial relations manager/ Union representative	Production manager, Supply chain, Industrial relations manager, Union representative	Head of supply chain, Head of HR, Production manager, Industry relations manager, Union representative
Discussion on shift related issues such as hygiene, cleanliness and production related issues	Morning meeting updates, quality and production issues, and administrative issues	Update on business position and challenges	Update on regional/area performance and target

Meetings conducted for employees

DELIVERING VALUE

Developing Next Generation Leaders

Talent attraction

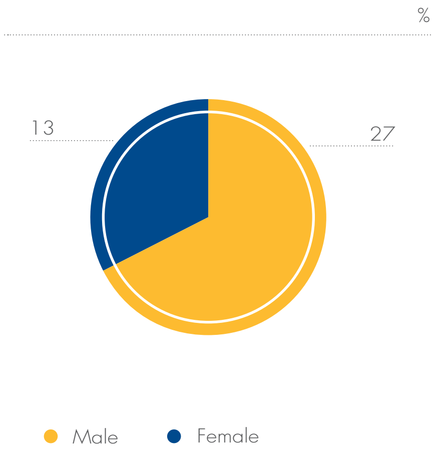
The Company's reputation for nurturing and developing employees in a rewarding and exciting environment has enabled it to attract the best talent in the market. However, rising external pressures and unmerited criticism of the Company's operations in recent times has inserted pressure on our ability to attract and retain talent. While the Company's HR strategy has been reviewed and revamped to address the issue of retention, continued difficulties in attracting the people with the right skills and attitudes could significantly affect the Company's ability to create value over the long-term.

In the face of these challenges, CTC's HR agenda on attraction expanded to a few new territories. Building the CTC Employer Image via the launch of the 'Talent Brand', increased presence in the selected higher educational institutions in the country and creating novel ongoing university interactions are some of the new initiatives leveraged by the Company.

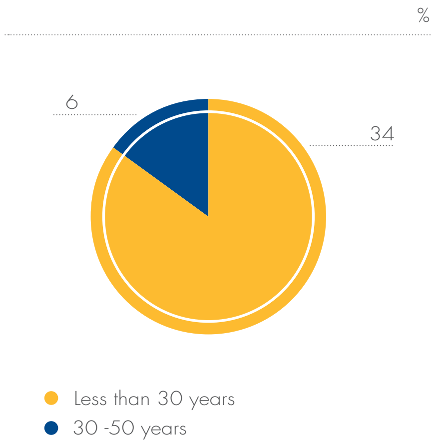
Employee retention

Continuous focus on engaging employees, investing in their development and providing attractive reward schemes have enabled CTC to maintain relatively low staff turnover levels. While we had no loss in Hi-potential employees during the year in review, 20 employees voluntarily left employment, translating to a turnover rate of 7.3%.

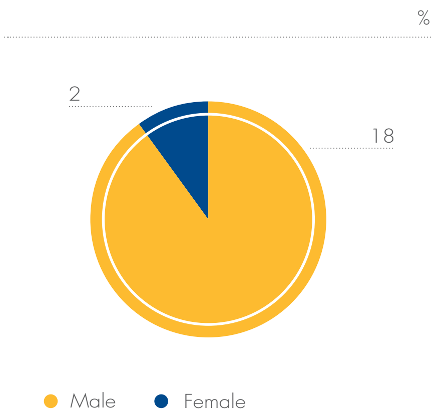
New hires by gender



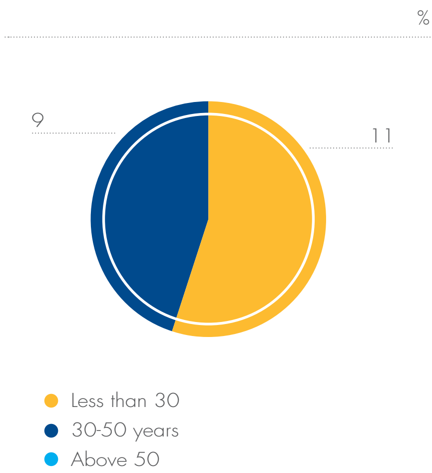
New hires by age



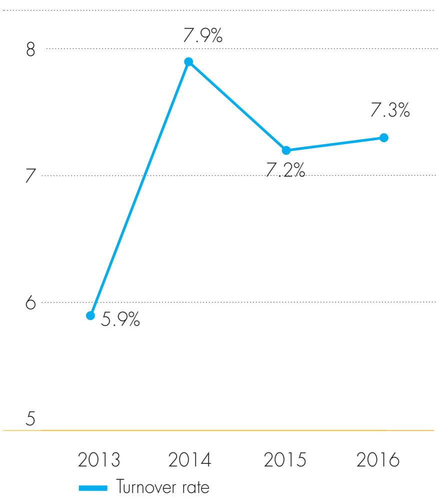
Turnover by gender



Turnover by age



Employee turnover



Remuneration and benefits

During the year, the Company's performance management systems were strengthened to drive merit-based rewards and career progression. All permanent employees have annual performance evaluations through which training needs and further areas for improvement are identified. We offer a host of attractive financial and non-financial remuneration including the following:

- Allowances;
- Death mutual benefit scheme;
- Distress relief scheme;
- Gratuity;
- Medical facilities;
- Motor vehicle loans and reimbursement of fuel;
- Provident fund loans; and
- Scholarship schemes for employees' children.

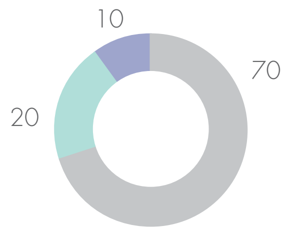
Employee productivity is a key measure of performance and is evaluated through multiple indicators based on employee job descriptions. Effective feedback during annual performance reviews as well as continuous coaching and development initiatives ensure that consistent improvements in employee productivity are a core expectation.

Training and development

In order to effectively groom our next generation of leaders, a comprehensive talent development framework is in place, which facilitates monitoring of performance, succession planning and development of skills aligned with the Company' strategy. Our talent proposition to our employees includes numerous structured and on-the-job training opportunities, cross functional and international exposure and stretch projects among others. Training needs are identified through a structured process which consists of gathering inputs, identifying strengths and areas for development and formulating options for development. During the year under review we invested Rs. 53 million in training and investment, providing 4,074 hours of training, which amounted to 26.8 hours of average training hours per employee.

Our approach towards learning and development embodies a 70:20:10 philosophy as depicted below.

70 ON THE JOB	Increased decision making / problem solving in current role Cross-functional introductions, field/ customer visits Interaction with senior management, e.g. meetings, presentations Work with internal experts or consultants Job rotation (role swaps); stretch assignments; project work
20 FROM OTHERS	Coaching Mentoring Communities of practice Assessments, 360 & feedback Learning through teams / networks External networks / contacts
10 FORMAL TRAINING	E-learning Online courses Conferences Seminars Classroom training



BAT's 70:20:10 philosophy on learning and development

The following table highlights the key internal training programmes that were held in 2016,

Programmes held internally	Participants	Days	Total Training Hours
Corporate Induction	24	5	960
Product Knowledge Foundation Programme (PKF)	33	4	1,056
Leading teams	11	4	352
Leadership Acceleration Programme (LeAP)	17	3	408
Elevate	18	2	288

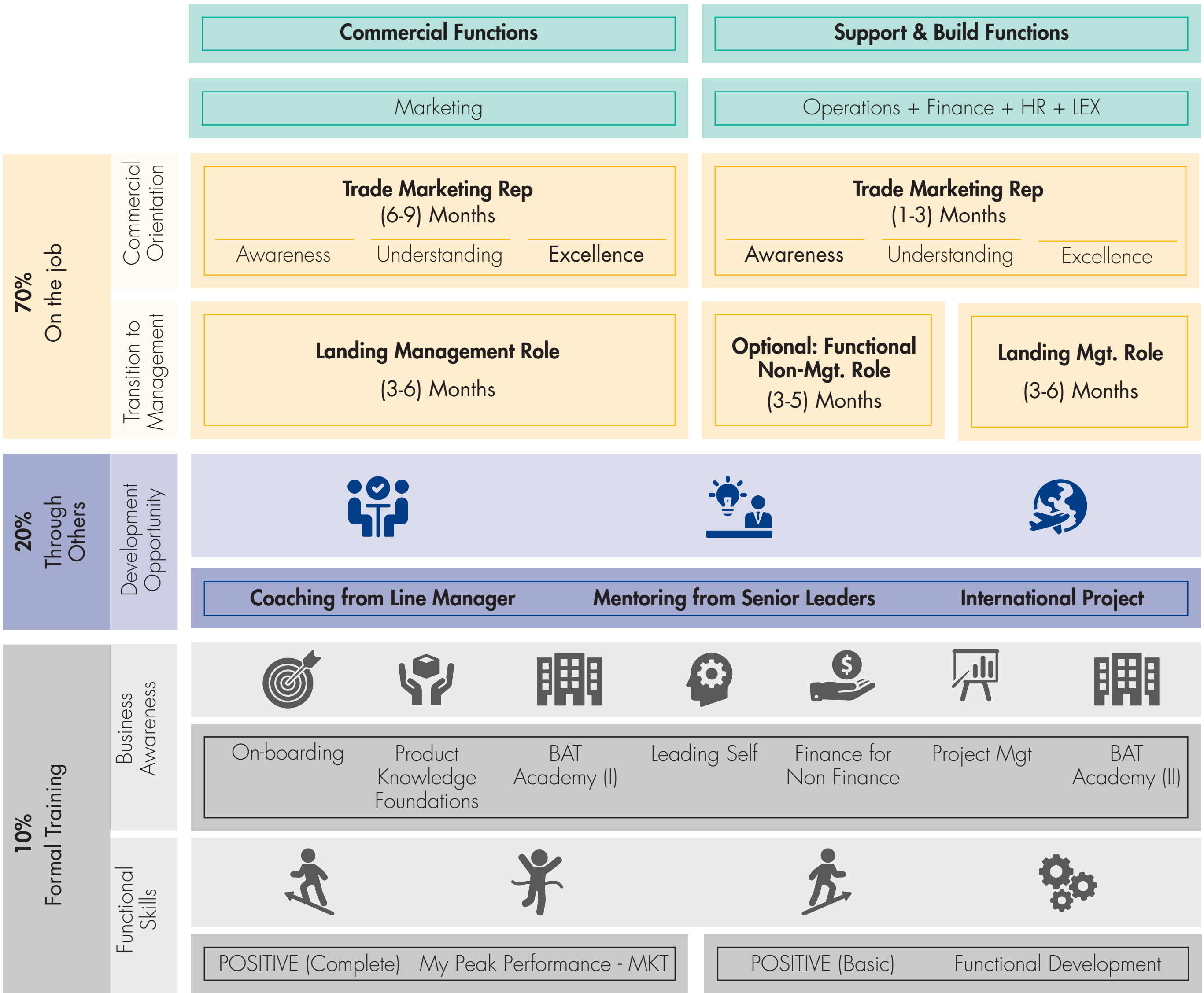
DELIVERING VALUE

Global Graduate Programmes

This 12-month intense development programme is aimed at producing an entry level manager from a fresh graduate.

Number of MTs: **03**

Number of interns: **85**



Structure of Global Graduate Programme

Fast track 15 Internship Programme:
Conducted in partnership with John Keells Holdings and Commercial Bank of Sri Lanka, the Fast Track 15 is one Sri Lanka's most pursued internship programmes. The interns receive industry exposure in 9 sectors, followed by extensive project work in each of these companies.

Structured Internship Programme:
Attracting over 100 undergraduates and postgraduates from local and foreign universities every year, the programme provides a 3 or 6 month structured learning opportunity comprising of coaching and periodic evaluations.

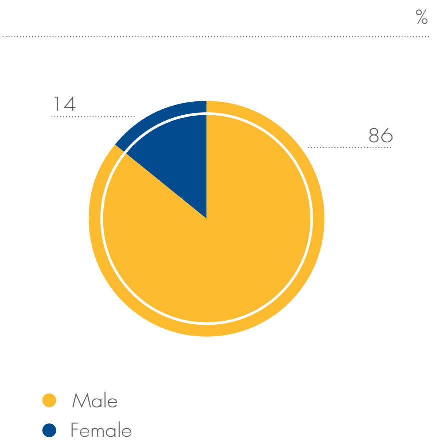
Promoting diversity and creating a safe work culture

Strength of diversity

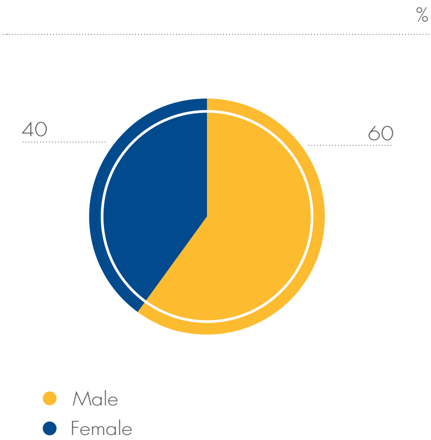
The BAT Group continues to place strategic emphasis on improving the diversity of its employees, and the Group is working towards achieving a sustainable improvement in senior representation of women and nationalities by 2020. CTC has aligned itself with the Group's diversity ambitions and have sought to widen female representation in the workforce through ensuring balanced access at entry level, providing opportunities for flexible working, increasing maternity benefits and facilitating platforms for engagement. Female representation in management roles has continued to widen, increasing from 13% in 2014 to 16% by 2016.

Over the past few years, we have also made a conscious effort to increase the proportion of young employees in the workforce. Accordingly, the average age of new roles has decreased, thereby enabling the Company to develop a pool of receptive and dynamic young employees. For instance, in 2016 CTC recruited a total of 40 new employees of which 34 were in the less than 30 age category.

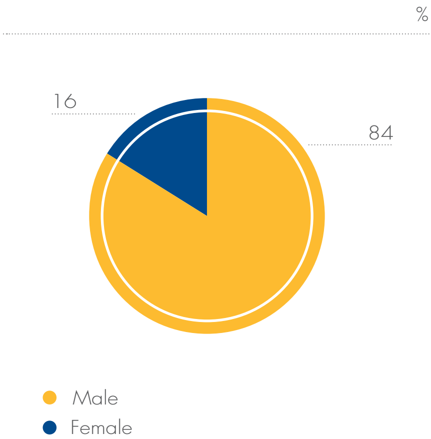
Executive Committee



Extended Leadership Team



Management Cadre



Creating a safe work environment - Employee health and safety

CTC achieved its 13th consecutive injury-free year, one of just three BAT companies in the Asia Pacific region to do so. The Company's impressive health and safety record is testament to the comprehensive frameworks and policies, continuous employee training and safety practices in place within the Organisation. CTC's Health & Safety Policy and approach towards safety at the workplace is aligned with the Group's integrated EHS (Environment, Health and Safety) guidelines (refer page 170 for Health & Safety Policy). In addition to departmental H&S Committees, CTC's health and safety governance structure includes a cross-functional EHS Steering Committee which meets quarterly to monitor health and safety performance parameters and identify areas for continuous improvement. All employees undergo health and safety training on a regular basis and H&S topics are covered in collective agreements with trade unions.

Health and safety topics covered in collective agreements

- Medical benefits and coverage
- Insurance claim reimbursements
- Scope of insurance policies

Key health and safety initiatives/ improvements carried out during the year include,

- Wellness Centre: Adopting a holistic approach towards employee health and wellness, during the year, we transformed the Company's medical centre to a Wellness centre, enabling employees to obtain tailor-made advice on nutrition, healthy living and exercise plans.

- PULSAR: Involves the mutual observation of employees' safety behaviour and providing reinforcement on positive aspects, which is expected to condition employees to continuously adopt these behaviours.

DELIVERING VALUE

PULSAR highlights for 2016

- Increased the number of trained observers to 54
- Increased observation rate to 65%
- Expanded programme to all factories and Colombo warehouses
- NEARMISS - Employees are given the opportunity to report potential safety risks and hazards through mobile technology. Follow-up is actioned by the EHS Manager.

H&S practices carried out in 2016

- Introduced safety helmets of international standards to all leaf field based employees
- Health and safety briefing/training extended to cover all contractors
- Introduced ergonomically friendly, high technology, lightweight safety shoes across all manufacturing plants
- Launched the Field Force Safety Toolkit - a global H&S training programme for all field based teams
- Monthly safety walks, H&S briefings for new employees and EHS Moments at all staff meetings

	Male	Female	Total
Injury rate	0	0	0
Lost day rate	0	0	0
Absentee rate	0	0	0
Work related fatalities	0	0	0

Anti-discriminatory and anti-harassment policy

The Company's Standards of Business Conduct (SOBC) and a well-defined anti-discriminatory and anti-harassment policy are in place and periodic awareness campaigns are conducted to ensure employees are aware of their responsibilities and rights.

Due to the increased awareness levels, and the encouragement given to air grievances in this regard, 2 cases have been raised and investigated to a closure during the past year.

Industrial relations

We are responsible for ensuring that the rights of our employees are protected in the workplace and that they enjoy freedom of association and the right to collective bargaining. Our non-executive employees (who amount to 30% of the total workforce) are represented by trade unions and covered by a collective agreement. The collective agreement forms the foundation for harmonious industrial relations with the employees and is aligned with the Company's people and business objectives. We engage proactively with union representatives on a regular basis and have continued to maintain an open and congruous relationship with them for over two decades. During the year, we reaffirmed a record of zero lost workdays stemming from industrial action.

Employee grievance mechanism

A structured employee grievance mechanism is in place ensuring confidentiality, an impartial hearing and follow-up action if deemed necessary.

All grievances are initially brought to the attention of the respective Head of Function and subsequently discussed with the Head of HR depending on the severity of the grievance. In general, all grievances are responded to within 10 days of initial communication. During the year under review, a total of 18 grievances were addressed and resolved.

Outlook for 2017

External pressures on the industry are likely to remain at the same level or increase over the next year. This added to the challenges we foresee in delivering business results, means that a strong people agenda underpinning the long-term business confidence is vital in driving our strategic objectives.

As a result, in 2017 we will continue to focus on investing in our people in order to nurture the next wave of leaders and embedding a culture of recognition in our day to day work life with the objective of motivating and stretching our employees. We will also seek to adopt a stronger and more focused approach towards building our talent brand externally. Overall, the management team will continue to give its fullest commitment towards driving its people agenda.

Company Plan Cascade

Winners of Chairman's Award - Marketing team for launching "Automate"

Winner of Pinnacle Award - Nishanga Dissanayake

Employees celebrating Sinhala & Tamil New Year

Winner of "Tribal Clash" (CTC Sports Day) - Marketing Zulus

Employee engagement through "Tribal Talk" sessions

Inauguration of the new cigarette packing machine

Year end celebrations at CTC Night

DELIVERING VALUE

OUR TEAMS

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

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

The Barn Owners' Association

DELIVERING VALUE

NATURAL CAPITAL

As a manufacturing organisation, we convert natural capital into value across all other capitals by using technology and other resources. We recognise that in generating such value, we impact negatively on natural capital through the use of non-renewable resources, generation of waste and emissions.

Material aspects covered	Minimising the environmental footprint of our operations, Environmental impacts of tobacco growing
Relevant strategic pillars	

Highlights of 2016

	Metric	2016	2015
Consumption of tobacco leaves	MT	4,972	3,164
Total energy consumption	GJ	41,324	49,663
Energy intensity	GJ/MCE	7.2	7.5
Energy saving (y-o-y) due to specific initiatives	%	17	(8) *
Barn automation	%	100	65
Water consumption	CuM	40,396	47,273
Water intensity	CuM/MCE	7.1	7.2
GHG emissions	tCO2e	3,434	4,141
Emission intensity	tCO2e/MCE	0.6	0.7
Waste recycled	%	95	95

*Energy consumption in 2015 was up by 8% compared to 2014

Governance and approach

CTC's approach towards environmental sustainability is defined by the BAT Group's comprehensive Environmental Policy and management system which is based on international best practices in environmental management, including ISO 14001. Environmental practices and success stories within the Group are shared amongst all subsidiaries in a structured manner, enabling the propagation and uniform adoption of practices across the Group. The policy (refer page 167) is applicable to all our operations including the supply chain and its implementation falls under the purview of the EHS Steering Committee.

The Committee is also responsible for ensuring compliance to all relevant environmental laws and regulations. Meanwhile, the EXCO's performance appraisals include specific criteria on environmental performance.

Understand our impacts and put in measures to minimise the impact › Manage, monitor and report › Include environmental considerations in product design › Work with business partners to share best practices

CTC's environmental management framework

Focus areas for environmental impact management

Raw materials	Energy	Water
Solid waste & effluents	Emission	Bio diversity

Compliance

Sharing best practices

POTENTIAL IMPACTS OF CLIMATE CHANGE

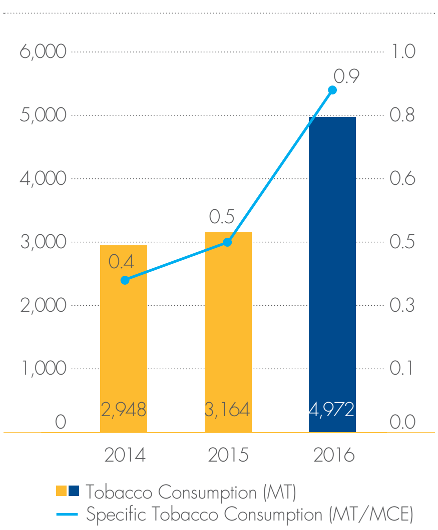
From CTC's perspective, the effects of climate change particularly, warmer temperatures and increases in the frequency and intensity of extreme weather events could potentially impact the sustainability of tobacco sourcing as well as the wellbeing and sustainability of the communities we operate in. We are yet to quantify the financial implications of such risks.

RAW MATERIALS

The primary raw material used in the manufacture of cigarettes is tobacco leaves, a renewable resource which we strive to source from local farmers. We support tobacco farmers to engage in sustainable agricultural practices during the cultivation of tobacco, through the implementation of the STP Framework, which was implemented across the Group in 2016. (Refer page 168 for further details). The Framework is based on four key pillars which include Crop, People, Environment and Facilities, and include a range of sustainability indicators which are monitored consistently.

During the year, we consumed 4,972 MT of tobacco leaves, an increase of 57% in comparison to the previous year.

Raw Material (Tobacco) Consumption

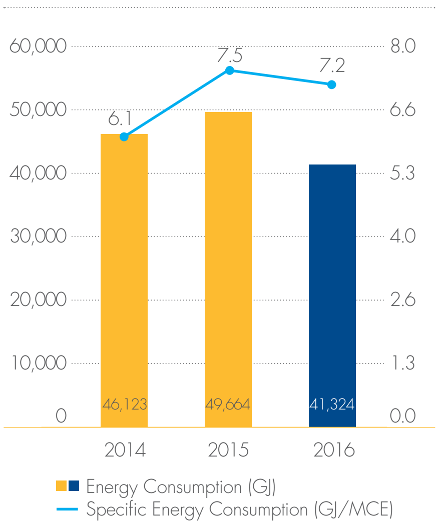


ENERGY

The Company's key sources of energy are electricity, diesel, furnace oil, and petrol.

During the year in review, our energy consumption fell by 17% to 41,324 GJ when compared to the previous year. Specific energy consumption was also reduced to 7.2 GJ/MCE in 2016.

Energy Consumption



This reduction was achieved as a result of various energy efficiency improvements undertaken in 2015 and continued through to 2016. In addition to the key initiatives that the Company undertook in the previous

DELIVERING VALUE

year, in 2016 emphasis was placed on reducing the dependency on fossil fuels through the increased use of solar power, enhancing energy efficiency of our factory operations and widening employee participation in energy saving initiatives.

Key energy initiatives carried out during the year are as follows;

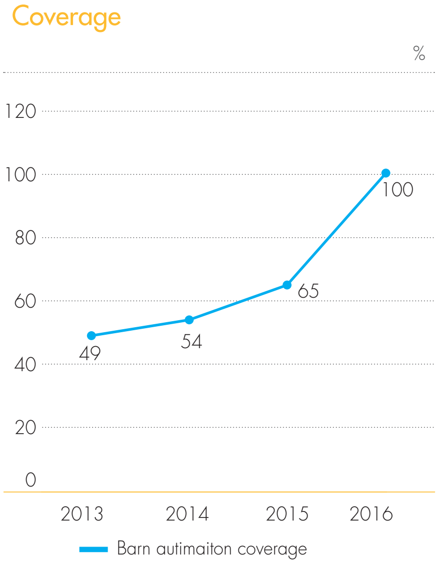
Initiative	Investment (Rs. million)
Installation of LED lighting	0.85
Natural lighting in warehouses	3.2
Installation inverter air conditioners	0.5
Installation of solar panels for sustainable energy generation	1.6

Reducing dependence on fossil fuels

During the year, we installed a solar-powered car charging system offering free charging facilities to all employees, the first market in BAT South Asia to do so. The charger currently generates around 700 KwH and we hope to gradually increase investments in renewable energy through scalable planning with the ultimate objective of reducing dependence on fossil fuels and the national grid.

In 2016, the entire fleet of vehicles was brought down to 5 years, while 40% of the marketing fleet was replaced with hybrid vehicles, thereby improving overall energy efficiency. We also hope to replace motorbikes every 3 years.

Barn automation



As part of our commitment towards renewable energy, we utilise paddy husk to generate energy in the tobacco curing process, thus completely eliminating the use of firewood. The initiative is estimated to reduce energy consumption by 25% and also contribute towards reducing the carbon footprint. CTC was one of the first tobacco companies in the world to adopt this practice, which has now been emulated across other markets in the Group.

We also continued to expand our coverage of automated tobacco curing barns and by end-December 2016, achieved 100% conversion of all barns.

Engaging employees in energy conservation

In driving behavioural changes amongst employees, the Company conceptualised and established 'Conservation Cells' to champion energy reduction programmes in each function. The Cells are operated under the purview of the Engineering Manager, who is provided training in order to obtain certification from the Sustainable Energy Authority of Sri Lanka. Meanwhile, the Daily Engineering DDS is a forum through which the core engineering team assesses impacts and performances related to energy consumption and efficiency. The Energy Hub initiative continued to grow in scope and coverage and during the year, enabling us to identify high consumption areas and work together with process owners to implement targeted solutions.

NOW — 2020

0.2% by solar

Vehicle Charging Bay

1.0% by solar

Solar Powered PMD Ventilation System

2.0% by solar

Expansion of Car Park Charging Bay

3.5% by solar

Expansion to SMD Lighting

5.0% by solar

Battery Operated fork lifts

Vehicles - Plugin Hybrids

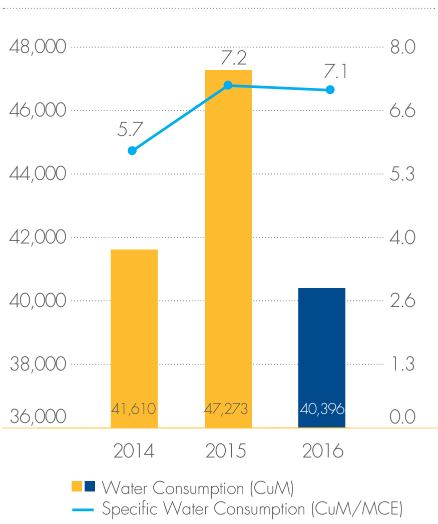
Our plan on reducing dependence on fossil fuels

WATER

The Company is dependent entirely on municipal lines for water and does not utilise surface or ground water in its factory or administrative premises. Water is also an important input in tobacco growing and achieving reductions in consumption across the supply chain is an important priority for the Group. Overall, the Group is on target to meet its global aim to reduce water consumption by 27% in 2017 (base year of 2007).

During the year in review, the Company's water consumption was reduced by 15% to 40,396 CuM while the specific consumption also fell to 7.1 CuM/MCE. Reduction in production during the year as well as results of investments made during the previous year have led to this reduction in water consumption in 2016.

Water Consumption (CuM)

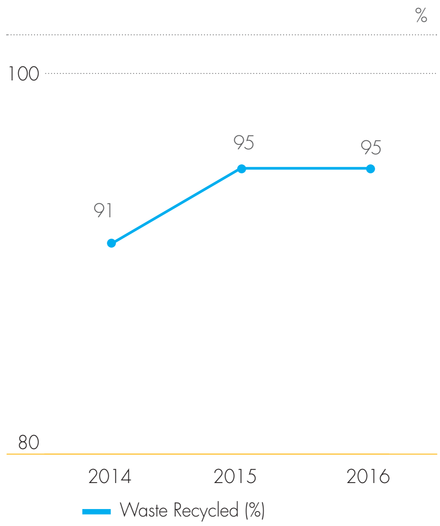


SOLID WASTE AND EFFLUENTS

Structured processes are in place to collect, segregate and dispose of waste in ways that cause minimal environmental damage. During the year, the Company achieved a 15% reduction in solid waste generated which amounted to 564 MT. Furthermore, 95% of the waste generated in our operations was re-used or recycled by the Company or third parties in some manner in line with the Group's global targets for waste management.

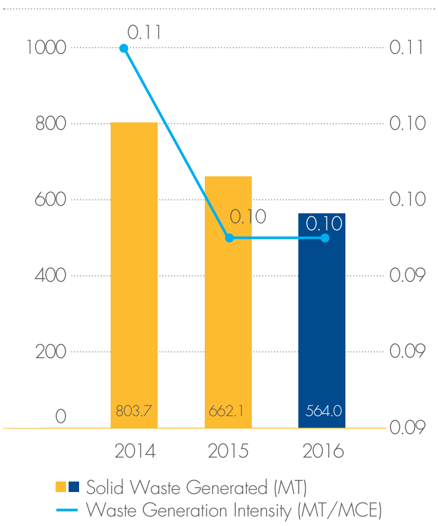
The following mechanisms are in place for the responsible disposal of waste,

Waste Recycled



	Type of waste	Method of disposal
Solid waste	Tobacco waste (tobacco dust and confiscated cigarettes)	Sent to Holcim Lanka for alternative fuel generation
	Waste from green leaf threshing	Composted and sent to farmers as fertilizers
	Waste wrapping and packaging material	Third party recyclers
	Food waste from canteen	Sent for recycling
	Used CFL and Fluorescent light bulbs	Sent to a recycling facility operated by Orange
Effluents	Water discharged from operations	Treated in an effluent plant and re-used for non-critical activities such as gardening and road-way cleaning

Solid Waste Generated (MT)



Effluent water discharged from our operations is treated in an effluent treatment plant and reused for non-critical activities such as gardening and roadway cleaning. Waste water discharges increased by 33% in 2016 as the waste water recycled reduced due to a plant failure. Plans are in place to repair the plant in 2017.

DELIVERING VALUE

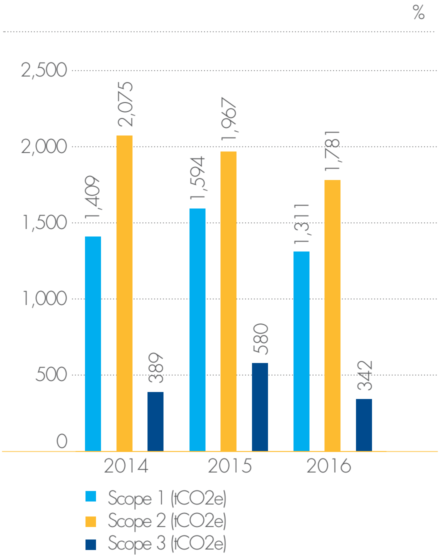
EMISSIONS

The Company calculates its carbon footprint based on the Greenhouse Gas Protocol published by the World Resources Institute. Reducing emissions is a key environmental priority for BAT, and numerous initiatives launched across its markets have enabled the Group to record a 48% reduction in its carbon footprint during the five-year period to 2015. At the Company level, initiatives aimed at improving the Company's energy efficiency has directly contributed towards reducing its carbon footprint.

Greenhouse Gas Emissions

Scope	Definitions	Tonnes of CO2 Equivalent
Scope 1	Energy consumed at our factories and offices (coal, natural gas, wood, diesel and LPG) and fuel consumed by our fleet vehicles	1,311
Scope 2	Electricity purchased and consumed at out factories and offices, purchased steam and hot water	1,781
Scope 3	Most relevant and material areas of: freight (transport related activities in vehicles not owned or controlled by the business), waste disposal and business travel	342

Green House Gas Emissions



BIO-DIVERSITY

The Company's efforts towards preserving ecosystems such as soil, forest products and water are primarily driven through the leaf supply chain. The STP framework (discussed on page 86) focuses on,

- The use of Integrated Pest Management Systems which reduce the use of agrochemicals used for pest control.
- Supporting farmers to adopt soil conservation techniques such as Sloping Agricultural Land Technology (SALT) and use compost produced from tobacco dust as organic fertilizer.

'Plant a Tree – Save Planet', the annual tree planting programme organised by the Company was held at the banks of Polgolla Reservoir in November 2016. 1,000 saplings were by 200 volunteers representing CTC, and various other stakeholders. In addition to this the Company also distributed 1,000 saplings among its employees during the year in review.

Refer page 169 for the Company's Biodiversity Statement

CONTRIBUTING TO COMMUNITIES

Investments totalling more than Rs.1.0 billion over a decade of rural empowerment through various CSI initiatives has enabled the Company to nurture deep-rooted relationships and drive meaningful and sustainable socio-economic progress in the communities we operate in. Since inception in 2006, our flagship CSI project - the Sustainable Agricultural Development Programme (SADP) has directly benefited over 72,964 economically underprivileged individuals, in 18,864 families across 16 districts.

Material aspects covered	Corporate Social Investment, CSI Governance
Relevant strategic pillars	

CSI Framework and Governance

The BAT Group's subsidiaries have a long history of empowering and supporting communities in regional markets with investments in CSI projects around the world exceeding £60 million over the last five years. BAT's Framework for CSI clearly articulates how companies are expected to develop, deliver and monitor community investment programmes. All CSI activities are managed at a local level to effectively cater to community specific challenges and drive needs-based development. The Group has defined three global CSI themes as depicted below, of which CTC's efforts are mainly focused on the theme of Sustainable Agriculture and Environment.

Sustainable Agriculture and Environment	Empowerment	Civic life
Focuses on the social, economic and environmental sustainability of agriculture as well as wider environmental issues	Consists of providing training, education and opportunities to contribute towards the development of communities	Activities that aim to enrich public and community life such as arts and indigenous cultures

BAT's CSI Framework

Susantha Ratnayake
Chairman

Michael Koest
Director

Emma Ridley
Director

Dinesh Weerakkody
Director

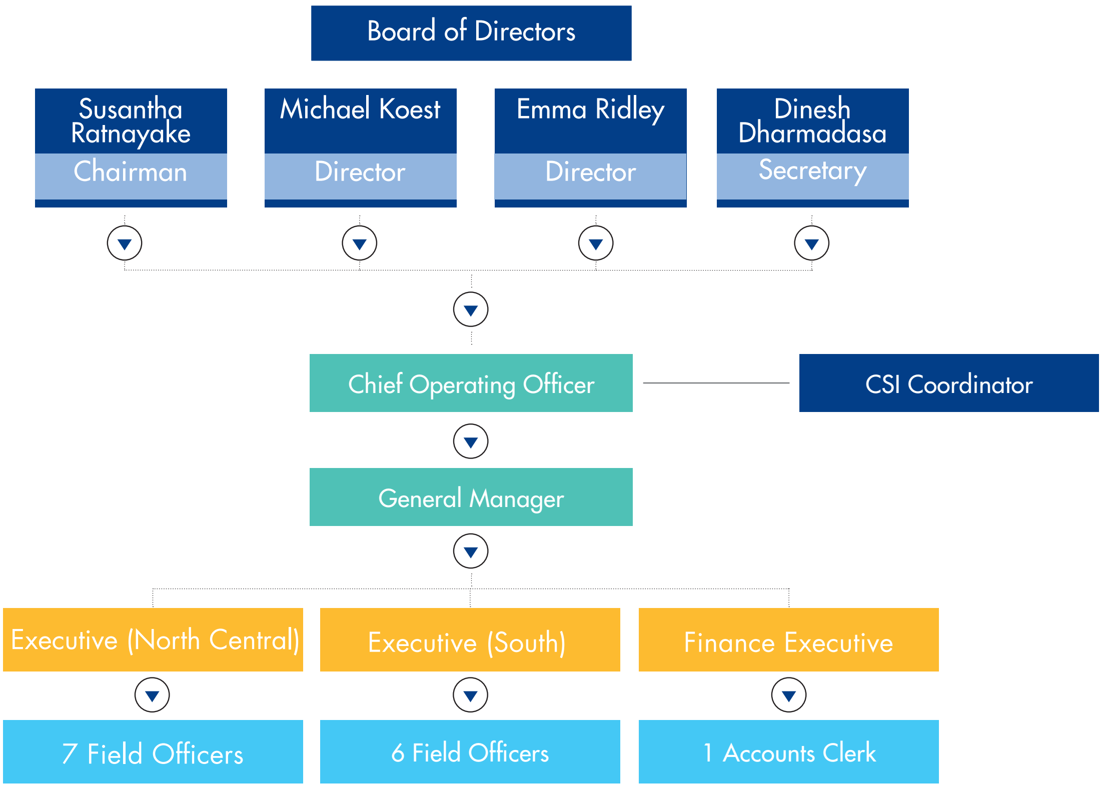
Dinesh Dharmadasa
Secretary

CTC's CSI Steering Committee

At CTC, a dedicated CSI Steering Committee has been established which holds overall responsibility for reviewing and making appropriate recommendations to the Board regarding the Company's management of CSI programmes and the conduct of business in accordance with the Statement of Business Principles. Realistic and measurable KPIs are developed, agreed and reviewed and performance is reported to the Regional Audit and CSI Committees through the annual CSI survey. CTC's CSI Steering Committee is chaired by the Chairman, and comprises of five members of the senior management.

Given the increasing scope and coverage of SADP, Outreach Projects (Guarantee) Limited was established in 2007 to ensure the transparency and integrity of all activities carried out under SADP. Outreach functions under the purview of the CSI Steering Committee and is responsible for the execution and management of all SADP activities. The structure of Outreach is given in the following page.

DELIVERING VALUE



Outreach Organisational Structure

Sustainable Agricultural Development Programme (SADP)

SADP was conceptualised and launched in 2006, with the initial objective of supporting Sri Lanka's achievement of poverty alleviation under the Millennium Development Goals. Since its inception, however, the initiative's scope and coverage has broadened to reflect emerging community needs and evolving national priorities. SADP's primary focus is to contribute towards uplifting communities and developing a platform for sustainable agriculture through knowledge transfer, resource assistance and empowerment.

Operating model

Through SADP, individuals living below the poverty line in selected villages are provided with agricultural and other inputs to achieve self-sufficiency through home gardening and animal husbandry. The project is implemented in four stages over a period of 2.5 years.

Beneficiaries:
72,964

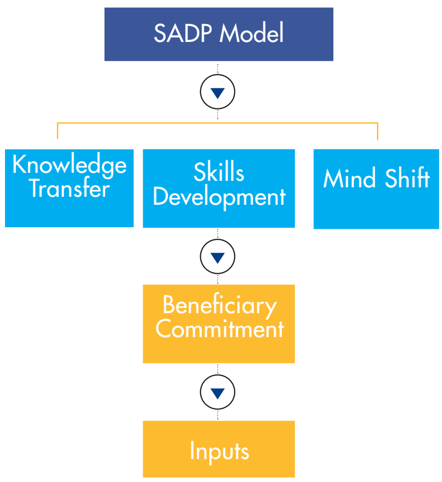
Female representation:
94%

Upto 2016:
RS. 437 million

Families:
18,864

Agro wells:
100

2017-20:
RS 159.4 million



Stage 1 (0-6 months)	Registration	Issuing plants and seeds	Preparing compost pits and gliricidia fencing	Field support
Stage 2 (7-15 months)	Farming clusters	Farming Societies	Issuing plants, seeds and poultry	Field Support
Stage 3 (16 – 24 months)	Issuing animal husbandry	Issuing plants and seeds	Field Support	
Stage 4 25-30 months	Preparation for graduation	Graduate after 30 months	Field support	

The four stages of SADP implementation

In catering to evolving community needs, CTC has launched several variants of the initiative;

- **SADP PLUS**

  Implemented in the Eastern Province in response to the Government's invitation for post-conflict development, SADP Plus was launched with the objective of uplifting livelihoods of rural families ravaged by conflict. Relatively large land extents enable these families to cultivate cash crops in addition to home gardening.

  SADP*Plus*
  2,700 families
  Total investment: Rs 79 million

- **SADP LITE**

  SADP Lite was launched in 2010 as a result of a request made by the Ministry of Rehabilitation and Prison Reforms to rehabilitate ex-LTTE combatants in the Kandankudu area. The project involved agriculture-related vocational training for a period of 23 months.

  SADP*Lite*
  1,449 families
  Total investment: Rs 2.9 million

- **SADP MEGA**

  CTC collaborated with the Gangaramaya temple to create a 12-acre model farm in Sooriyawewa to serve as a knowledge hub in training farmers on ecologically friendly agricultural practices. The proceeds of the farm are donated to the temple for community engagement initiatives.

  SADP*Mega*
  Total investment: Rs 6.2 million

- **SADP ULTRA**

  SADP Ultra was launched in 2013, to promote the cultivation of cash crops such as maize and other home gardening crops on tobacco fields. The multiple benefits of this programme, which include increasing bio diversity of the land, enhancing soil quality and providing farmers with an additional source of income encouraged CTC to continue this programme in 2016.

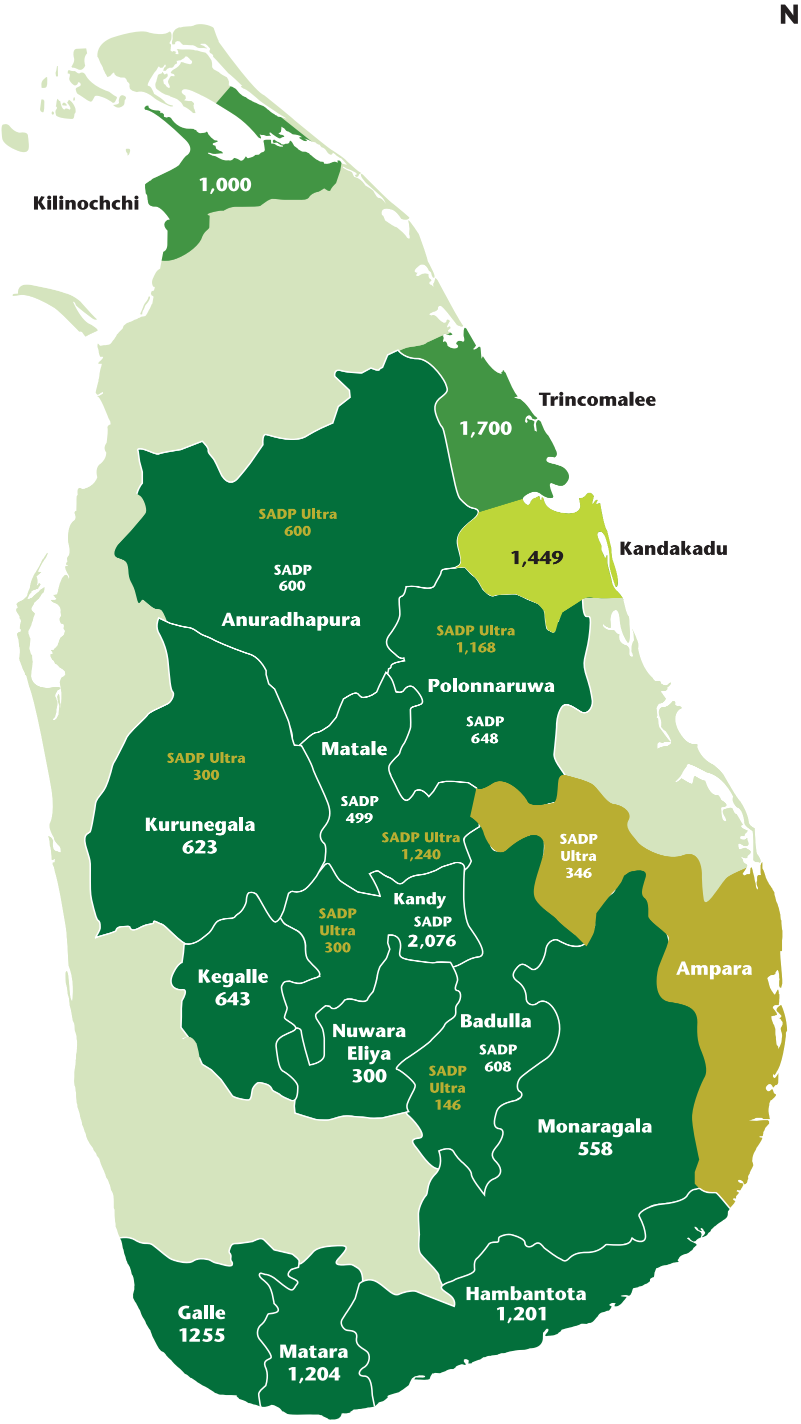
  SADP*Ultra*
  Number of beneficiaries: 16,000
  Total investment: Rs 4.6 million

- **SADP AGRO-WELLS**

  Launched in partnership with the Welioya District Secretary, SADP Agro-wells involved the construction of wells in drought stricken areas in the Mullaithivu District of the Northern Province. To date, CTC has constructed 100 wells in the region, each expected to serve 4 families, at a total investment of Rs. 24 million.

  SADP **AGRO** WELLS
  Number of beneficiaries: 400
  Total investment: Rs 24 million

DELIVERING VALUE



NUMBER OF SADP FAMILIES BY PROJECT

SADP -	10,615
SADP Plus -	2,700
SADP Lite -	1,449
SADP Ultra -	4,100

SADP FAMILIES BY DISTRICT

SADP

Anuradhapura	600
Polonnaruwa	648
Kurunegala	623
Matale	499
Badulla	608
Kandy	2,076
Kegalla	643
Nuwara Eliya	300
Monaragala	558
Hambantota	1,201
Matara	1,204
Galle	1,255

SADP Plus

Trincomalee	1,700
Kilinochchi	1,000

SADP Lite

kandakadu	1,449

SADP Ultra

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

CTC has also partnered with leading corporates to further expand the scope and coverage of SADP. In 2016, we continued to collaborate with Dilmah to introduce the SADP model to 50 tea estate worker families.

Value creation-SADP outcomes and impact

The programme has been carefully formulated to achieve 8 distinct objectives and performance is monitored against these objectives through measurable, pre-defined KPIs. Progress made during the year towards achieving these objectives are detailed in the subsequent section of this Report. The Company also engaged Ernst & Young to conduct an independent study in July 2015, to study the programme performance against the eight objectives. The results are discussed below.

Objective 1: Expansion of the programme

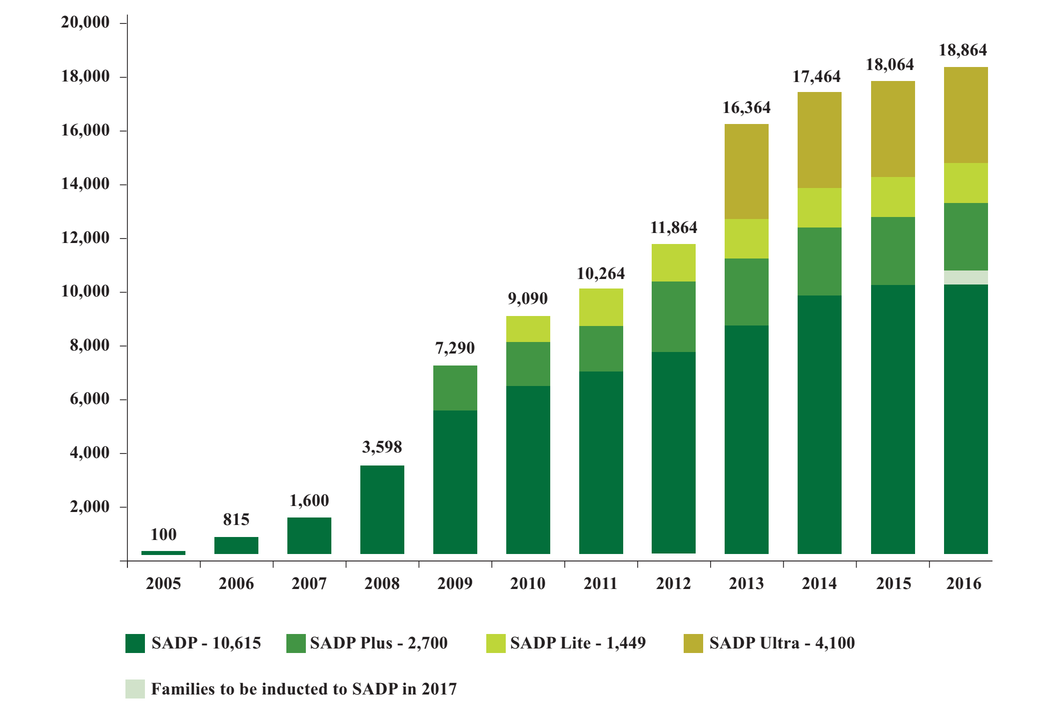
We have continued to widen the coverage of the programme by expanding the beneficiary base. In 2016, we added 800 more families thereby bringing the total beneficiary base to 18,864 families. The necessary resource allocations have been made to recruit a further 1000 families in 2017 and further expand the programme until 2020.

Objective 2: Provide a balanced meal – improve nutrition intake from 1429 calories to 2030 calories

An impact study conducted by Ernst and Young in July 2015 revealed that calorie intake by SADP families had improved in line with the progression of the project and was in line with the levels recommended by the World Health Organisation.

Per day calorie intake	Recommended daily allowance	Base line	Mid line	Graduate
Energy (Cal)	3000 cal	0.89	0.97	1.23
Protein (g)	55g	0.87	1.20	1.13
Fat (g)	65g	1.02	1.25	1.37
Carbohydrate (g)	300g	1.41	1.69	1.66
Calcium (mg)	600 mg	0.75	0.92	1.12
Iron (mg)	25mg	0.81	0.95	1.09
Retinal (ug)	750(ug)	0.44	0.59	0.48
b - Carotene (ug)	3000(ug)	0.65	1.13	1.51
Vitamin C (mg)	50mg	2.17	4.06	4.736

THE PROGRESS OF SADP



DELIVERING VALUE

Objective 3: Increase the level of agricultural knowledge

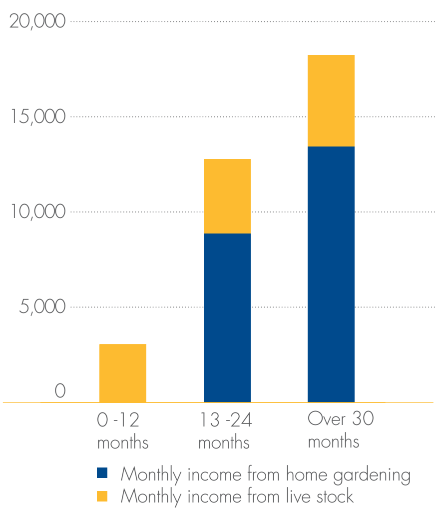
Increased agricultural knowledge gained through the programme has enabled the beneficiaries to obtain an additional source of income while obtaining the required nutritional requirements.

Objective 4: Providing beneficiaries with an additional source of income

Based on the independent study conducted by Ernst & Young, beneficiary families recorded a consistent growth in income generated as a direct result of SADP. In the first year, a family earned approximately Rs. 3,000 per month and this increased to Rs. 12,700 over the next two years and Rs. 18,200 after the first 30 months.

Additional income generation from SADP

Rs. Thousand



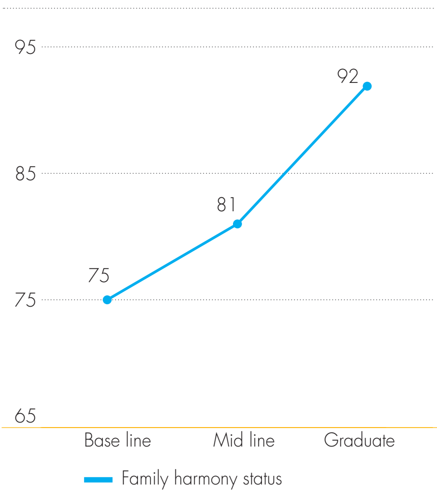
Objective 5: Female empowerment

In 94% of the participant families, women led the implementation of the project and played a vital role in sustaining it throughout its life cycle. The financial inclusion of women contributes towards uplifting the socio-economic standards of families and SADP has directly contributed to empowering and supporting women in these economically underprivileged communities.

Objective 6: Combat social disharmony

Amongst rural communities, the primary reasons for family disharmony are prevalence of hunger and poverty. Evidence based findings by Ernst & Young reveal that with the progression of the SADP programme, family harmony of beneficiary families improved significantly as demonstrated below.

Family harmony



Objective 7: Enhance land utilisation and productivity

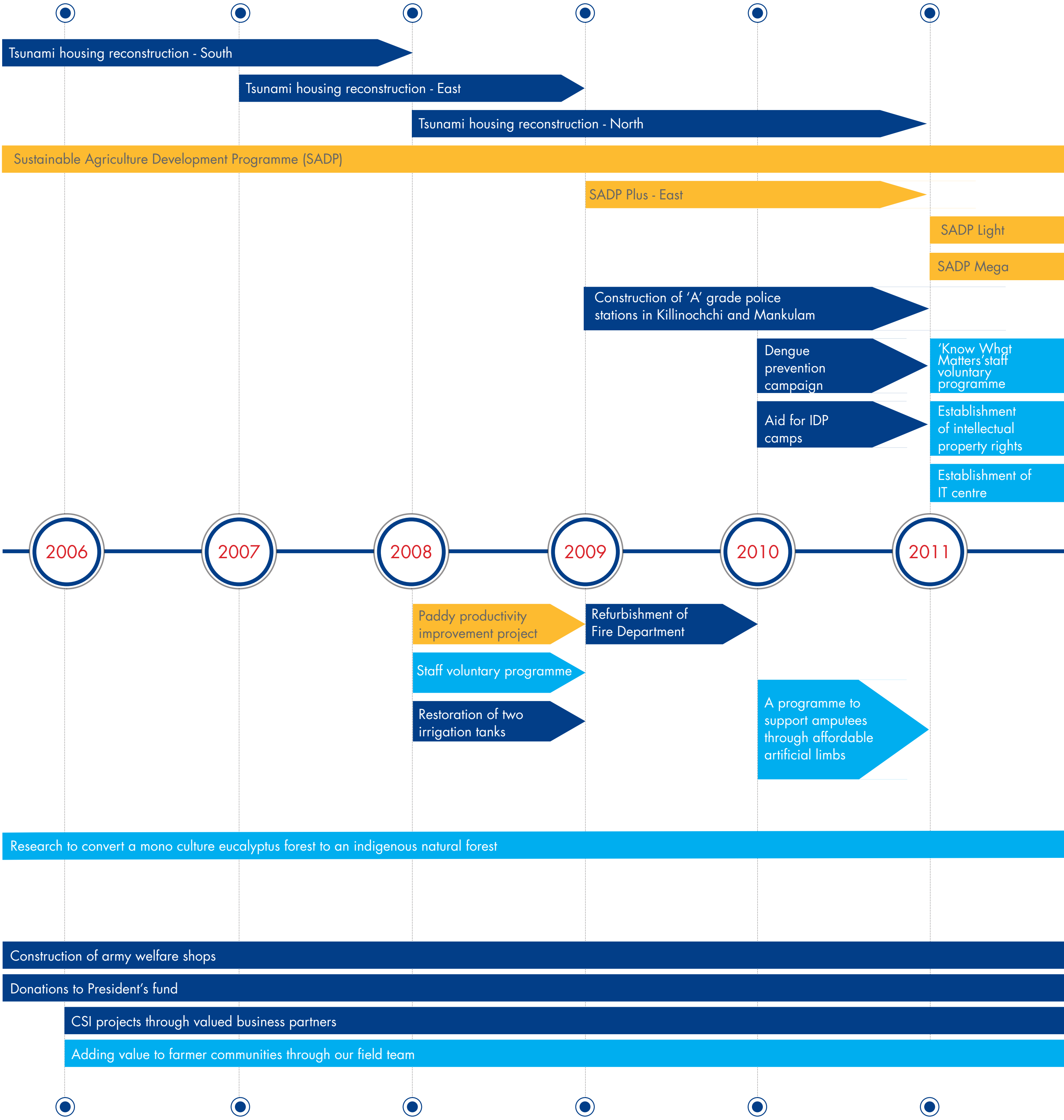
Use of land to cultivate vegetables, fruits and animal husbandry by beneficiary families has facilitated the maximum utilisation of their land. The independent review demonstrated that over 92% of the beneficiaries were utilising their lands at optimal levels.

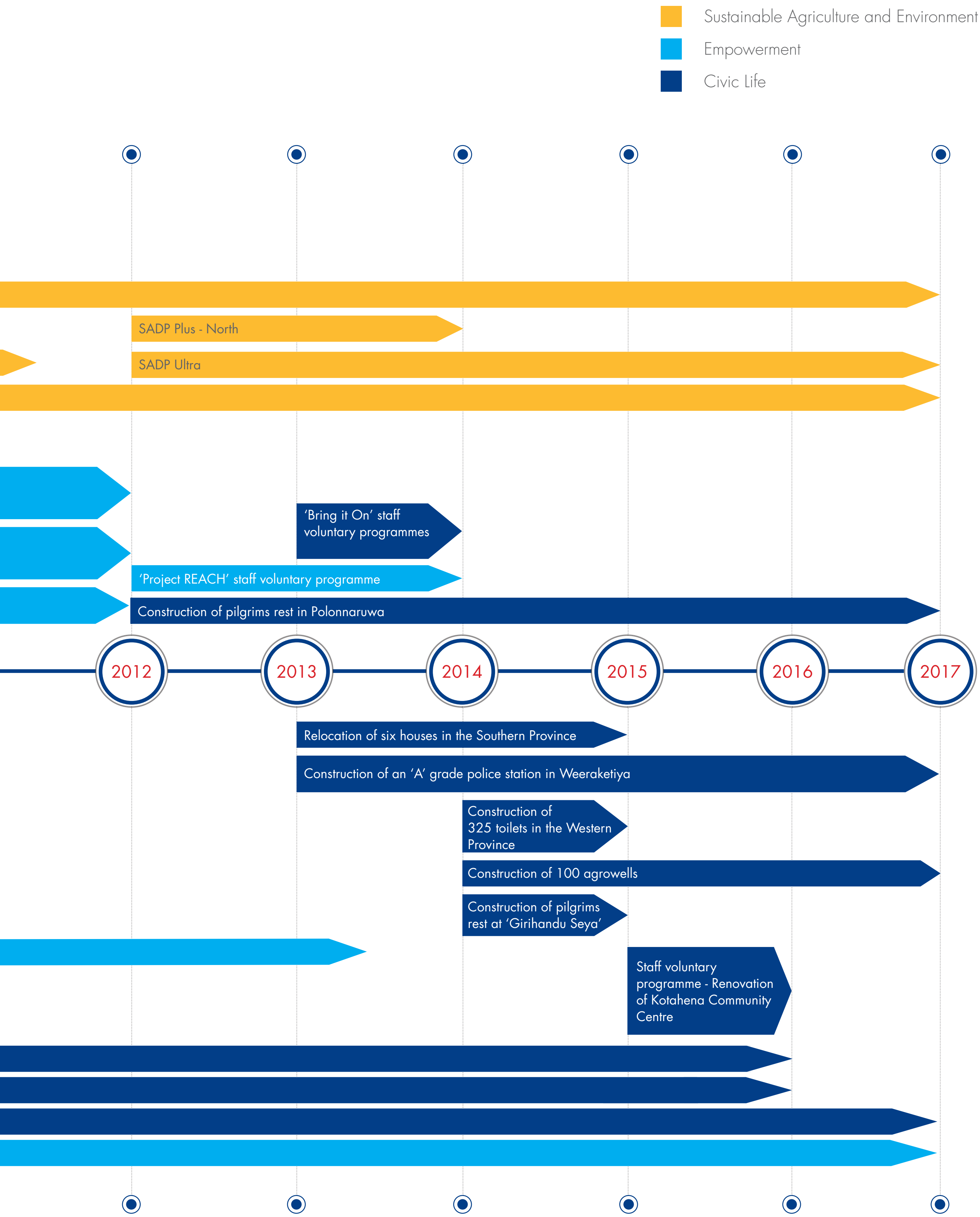
Objective 8: Promote organic farming

All families participating in SADP are required to source fertiliser entirely through composting organic waste and manage pests by using Integrated Pest Management. Almost 99% of beneficiary families were compliant with the organic practices recommended by the programme.

OVER A DECADE OF CORPORATE SOCIAL INVESTMENT

DELIVERING VALUE




Sustainable Agriculture and Environment
Empowerment
Civic Life
SADP Plus - North
SADP Ultra
'Bring it On' staff voluntary programmes
'Project REACH' staff voluntary programme
Construction of pilgrims rest in Polonnaruwa
2012
2013
2014
2015
2016
2017
Relocation of six houses in the Southern Province
Construction of an 'A' grade police station in Weeraketiya
Construction of 325 toilets in the Western Province
Construction of 100 agrowells
Construction of pilgrims rest at 'Girihandu Seya'
Staff voluntary programme - Renovation of Kotahena Community Centre

FINANCIAL INFORMATION

FINANCIAL CALENDAR

2016	
1st Quarter Results 2016	May 2016
2nd Quarter Results 2016	August 2016
3rd Quarter Results 2016	November 2016
Annual Report for 2016	March 2017
86th Annual General Meeting	April 2017

2017	
1st Quarter Results 2017	May 2017
2nd Quarter Results 2017	August 2017
3rd Quarter Results 2017	November 2017
Annual Report for 2017	March 2018
87th Annual General Meeting	April 2018

INDEPENDENT AUDITORS' REPORT

KPMG
(Chartered Accountants)
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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"), which comprise the statement of financial position as at December 31, 2016, and the statements of profit or loss and other comprehensive income, changes in equity and, cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information set out on pages 122 to 152 of the annual report.

Board's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Other Matter

The financial statements of Company as at and for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 18, 2016.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above.

b) In our opinion we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company and the financial statements of the Company, comply with the requirements of section 151 of the Companies Act.

KPMG

CHARTERED ACCOUNTANTS
Colombo

24 February 2017

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(all amounts in Sri Lanka Rupees thousands)

		Year ended 31 December	
	Note	2016	2015
Gross revenue	5	121,524,857	106,490,586
Government levies	5	(89,777,485)	(80,391,100)
Net revenue		**31,747,372**	**26,099,486**
Raw materials used		(3,274,380)	(2,976,870)
Employee benefit expenses	6	(1,400,151)	(1,418,406)
Depreciation expenses	12	(210,097)	(204,216)
Amortisation expenses	13	(8,358)	(10,086)
Other operating expenses		(6,509,587)	(3,996,014)
Other operating income	7	24,150	23,165
Operating profit	8	**20,368,949**	**17,517,059**
Finance income	9	850,389	561,250
Profit before income tax		**21,219,338**	**18,078,309**
Income tax expenses	10	(8,659,879)	(7,443,981)
Profit for the year		**12,559,459**	**10,634,328**
Other comprehensive income:			
Items that will not be reclassified to Profit or Loss			
Remeasurement of defined benefit obligations	14	110,778	(83,415)
Total other comprehensive income for the year		110,778	(83,415)
Total comprehensive income		**12,670,237**	**10,550,913**
Earnings per share			
- Basic (Rs)	11	67.05	56.77
- Diluted (Rs)		67.05	56.77

The Notes on pages 126 to 152 form an integral part of these financial statements.
Independent Auditors' Report - page 121

STATEMENT OF FINANCIAL POSITION

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December 2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	12	2,268,972	2,062,797
Intangible assets	13	886	9,244
Employee benefit plan asset	14(b)	652,270	532,653
Other receivables	16	142,277	138,344
		3,064,405	2,743,038
Current assets			
Inventories	15	2,067,549	3,532,237
Trade and other receivables	16	2,372,265	1,019,711
Assets held for Sale	12 (b)	279	-
Cash and cash equivalents	17	15,050,324	11,378,144
		19,490,417	15,930,092
Total assets		22,554,822	18,673,130
EQUITY AND LIABILITIES			
Equity			
Stated capital	18	1,873,238	1,873,238
Retained earnings		1,611,648	1,012,248
		3,484,886	2,885,486
Non-current liabilities			
Unfunded retirement benefit obligations	14(a)	1,376	1,376
Deferred tax liabilities	19	446,934	408,209
		448,310	409,585
Current liabilities			
Trade and other payables	20	11,992,481	10,374,375
Income tax liabilities		4,093,671	3,871,759
Dividend payable	21 (a)	2,341,548	936,618
Unclaimed dividends	21 (b)	193,926	195,307
		18,621,626	15,378,059
Total liabilities		19,069,936	15,787,644
Total equity and liabilities		22,554,822	18,673,130

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

Emma Ridley
Finance Director

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were authorised for issue by Board of Directors on 24 February 2017.

Michael Koest
MD and Chief Executive Officer
24 February 2017

Emma Ridley
Finance Director

The Notes on pages 126 to 152 form an integral part of these financial statements.

Independent Auditors' Report - page 121

STATEMENT OF CHANGES IN EQUITY

(all amounts in Sri Lanka Rupees thousands)

	Note	Stated capital	Retained earnings	Total
Balance at 1 January 2015		1,873,238	(1,784,979)	88,259
Profit for the year		-	10,634,328	10,634,328
Other comprehensive income		-	(83,415)	(83,415)
Total comprehensive income for the year		-	10,550,913	10,550,913
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	21 (b)	-	10,884	10,884
Dividends	21 (c)	-	(7,764,570)	(7,764,570)
Total transactions with shareholders		-	(7,753,686)	(7,753,686)
Balance at 31 December 2015		1,873,238	1,012,248	2,885,486
Balance at 1 January 2016		1,873,238	1,012,248	2,885,486
Profit for the year		-	12,559,459	12,559,459
Other comprehensive income		-	110,778	110,778
Total comprehensive income for the year		-	12,670,237	12,670,237
Transactions with owners of the Company, recognised directly in equity				
Write back of unclaimed dividends	21 (b)	-	11,546	11,546
Dividends	21 (c)	-	(12,082,383)	(12,082,383)
Total transactions with shareholders		-	(12,070,837)	(12,070,837)
Balance at 31 December 2016		1,873,238	1,611,648	3,484,886

The Notes on pages 126 to 152 form an integral part of these financial statements.
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STATEMENT OF CASH FLOWS

(all amounts in Sri Lanka Rupees thousands)

	Note	Year ended 31 December 2016	2015
Cash flows from operating activities			
Cash generated from operations	24	22,295,701	20,409,957
Interest received		823,168	561,250
Taxes paid		(8,380,713)	(6,638,068)
Super Gain Tax Paid		-	(3,810,186)
Net cash generated from operating activities		**14,738,156**	**10,522,953**
Cash flows from investing activities			
Purchases of property, plant and equipment		(420,167)	(562,899)
Proceeds from disposal of property, plant and equipment		21,479	11,584
Net cash used in investing activities		**(398,688)**	**(551,315)**
Cash flows from financing activities			
Dividends paid	21 (a)	(10,663,217)	(7,595,929)
Unclaimed dividends paid	21 (b)	(4,071)	(7,321)
Net cash used in financing activities		**(10,667,288)**	**(7,603,250)**
Increase in cash and cash equivalents		**3,672,180**	**2,368,388**
Movement in cash and cash equivalents			
At beginning of year		11,378,144	9,009,756
Increase		3,672,180	2,368,388
At end of year	17	**15,050,324**	**11,378,144**

The Notes on pages 126 to 152 form an integral part of these financial statements.
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NOTES TO THE FINANCIAL STATEMENTS

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

1 GENERAL INFORMATION

Company

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

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

2 BASIS OF PREPARATION & OTHER SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

They were authorised for issue by the Company's Board of Directors on 24th February 2017.

2.2 Presentation of Functional Currency

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

2.3 Going Concern

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4. Foreign currency transactions, translation and balances

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

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

2.5 Significant accounting judgements, estimates and assumptions

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2016 is included in the following notes:

- Note 14 – measurement of defined benefit plan: key actuarial assumptions;
- Note 19 – recognition of deferred tax assets

2.6 Segmental reporting

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

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

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

2.7 Property, plant and equipment

Basis of recognition

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

Basis of measurement

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

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

Depreciation and Derecognition

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

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

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

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

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

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

2.8 Intangible assets

Basis of recognition and measurement

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

Subsequent measurement

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

Amortisation

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

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

Computer Software	3 years

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

2.9 Financial Instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Such assets and liabilities are classified as current if they are expected to be realised or settled within 12 months after the reporting date. If not, they are classified as non-current.

2.9.1 Classification of Financial Assets

Non-derivative financial assets are classified on initial recognition as fair-value through profit or loss, loans and receivables, available-for-sale investments and held for maturity as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 2.14 and 2.15).

(c) Available-for-sale financial assets

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

(d) Held to maturity

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

Recognition and Derecognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of profit or loss.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial assets are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

2.9.2 Financial Liability

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognised in statement of profit or loss.

Other non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

The Company's financial liabilities include trade and other payables.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expired.

2.10 Offsetting financial instruments

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

2.11 Impairment of financial assets

Assets carried at amortised cost

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

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of profit or loss.

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

2.12 Impairment of non-financial assets

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

2.13 Inventories

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

2.14 Trade receivables

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

2.15 Cash and cash equivalents

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

2.16 Stated capital

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

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

2.17 Trade payables

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

2.18 Income tax

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

Current tax

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

Deferred tax

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

2.19 Employee benefits

(a) Defined contribution plan

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

Employees' Provident Fund:

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

Employees' Trust Fund:

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

(b) Defined benefit plan

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

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

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

(c) Short-term employee benefits

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

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

(d) Share based payments

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

2.20 Provisions

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

2.21 Revenue recognition

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

Revenue principally comprises sales of cigarettes and other tobacco products to external customers. Revenue excludes duty, excise and other taxes collected on behalf of third parties and is after deducting rebates, returns and other similar discounts. Revenue is recognised when the significant risks and rewards of ownership are transferred to a third party.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement. For local sales, the transfer usually occurs when the product is delivered to the distributors. However, for exports, transfer occurs on loading the goods onto the relevant carrier at the port. Generally, for such products the customer has no right of return.

2.22 Leases

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

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

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

2.23 Dividend distribution

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

2.24 Fair Value estimation

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

2.25 New Accounting Standards issued but not yet effective as at reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for the financial periods beginning on or after 1 January 2017. The Company has not assessed the potential impact on its Financial Statements resulting from their application.

SLFRS 15 - Revenue from contracts with Customer

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11- Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The Company has completed an initial assessment of the potential impact of the key changes upon adoption of SLFRS 15 on its financial statements. These key changes include, but are not limited to:

The classification of payments to customers between revenue and operating costs (includes payments, discounts and services to indirect customers and consumers)

Transition

The Company plans to adopt SLFRS 15 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Company will apply all of the requirements of SLFRS 15 to each comparative period presented and adjust its financial statements.

The Company is currently performing a detailed assessment of the impact resulting from the application of SLFRS 15 and expects to disclose additional quantitative information before it adopts SLFRS 15.

SLFRS 9 - Financial Instruments

SLFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply SLFRS 9 initially on 1 January 2018.

The actual impact of adopting SLFRS 9 on the Company's financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Company holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Company to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete.

Transition

The Company plans to adopt SLFRS 9 in its financial statements for the year ending 31 December 2018, using the retrospective approach. As a result, the Company will apply all of the requirements of SLFRS 9 to each comparative period presented and adjust its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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

SLFRS 16 - Leases

SLFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

SLFRS 16 replaces existing leases guidance including LKAS 17 - Leases, IFRIC - 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply SLFRS 15 Revenue from Contracts with Customers at or before the date of initial application of SLFRS 16.

The Company has started an initial assessment of the potential impact on its financial statements. So far, the most significant impact identified is that the Company will recognise new assets and liabilities for its operating leases of warehouse and factory facilities. In addition, the nature of expenses related to those leases will now change as SLFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Company has not yet decided whether it will use the optional exemptions. No significant impact is expected for the Company's finance leases.

Transition

As a lessee, the Company can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases. The Company currently plans to apply SLFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Euro and the Great Britain Pound. Foreign exchange risk arises from future commercial transactions of recognised assets and liabilities that are denominated in a currency which is not the entity's functional currency. Management complies with the treasury policy to manage foreign exchange risk against their functional currency. Exposure to foreign currency is limited to less than 5% of the trade receivables and payable balances.

The following significant average exchange rates were applied during the year:

	Year ended 31 December	
	2016	2015
US Dollar (USD)	149.80	136.06
Great Britain Pound (GBP)	185.10	207.90
Euro (EUR)	158.00	150.97

The Company considered a further 5% strengthening or weakening of the functional currency against non-functional currencies as a reasonably possible change. The impact is calculated with reference to the financial asset or liability held as at the year end. A 5% increase or decrease of functional currency against non-functional currencies would result in Rs. 31 Million impact on pre-tax profit.

(ii) Price risk

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

Equity price risk

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

Commodity price risk

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

(iii) Cash flow and fair value interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS

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

(b) Credit risk

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

	As at 31 December	
	2016	2015
Trade receivables [Note 16]	1,998,855	715,615
Receivables from related parties (Note 25(iii))	60,853	88,470
Staff loans [Note 16]	333,307	305,977
Other receivables	58,632	41,884
Advances to farmers [Note 16]	36,289	22,260
	2,487,936	1,174,206
Cash and cash equivalents [Note 17]	15,050,324	11,378,144
	17,538,260	12,552,350

Credit quality of financial assets

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

Cash at bank and short- term bank deposits

		As at 31 December	
Cash at bank	Rating	2016	2015
	AAA (lka)	14,964,639	11,252,084
	AA+ (lka)	72,507	6,996
	AA (lka)	9,994	6,666
	A- (lka)	531	109,485
	AA- (lka)	2,442	2,813
Total cash at bank and the short-term deposits		15,050,113	11,378,044

(c) Liquidity risk

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

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

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

	Less than 3	Between 3 months and 1 year	More than 1 year
At 31 December 2016			
Trade and other payables	(9,353,099)	(15,845)	-
At 31 December 2015			
Trade and other payables	(7,209,685)	(119,963)	-

3.2 Capital management

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

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

During 2016, the Company's strategy, which was unchanged from 2015, was to be fully equity funded and have no external borrowings.

NOTES TO THE FINANCIAL STATEMENTS

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

3.3 Analysis of financial instruments by measurement basis

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

As at 31 December 2015	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per statement of financial position				
Trade and other receivables excluding pre-payments	979,955	-	-	979,955
Cash and cash equivalents	11,378,144	-	-	11,378,144
Total	12,358,099	-	-	12,358,099

	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables excluding non financial liabilities		10,374,375	10,374,375
Total		10,374,375	10,374,375

As at 31 December 2016	Loans and receivables	Assets at fair value through profit and loss	Available for sale	Total
Assets as per statement of financial position				
Trade and other receivables excluding pre-payments	2,324,801	-	-	2,324,801
Cash and cash equivalents	15,050,324	-	-	15,050,324
Total	17,375,125	-	-	17,375,125

	Liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Trade and other payables excluding non financial liabilities	-	9,368,944	9,368,944
Total	-	9,368,944	9,368,944

4 SEGMENT INFORMATION

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

	Year ended 31 December	
	2016	2015
Geographical analysis of gross turnover		
Domestic	121,373,142	106,221,191
Export	151,715	269,395
	121,524,857	**106,490,586**
Geographical analysis of net results (profit for the year)		
Domestic	12,520,437	10,574,391
Export	39,022	59,937
	12,559,459	**10,634,328**

Assets

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

Entity-wide information

Gross revenues of approximately Rs. 45,463 Mn (2015 Rs. 39,714 Mn) are derived from three (2015 - three) external customers, who individually contribute to more than 10% of domestic sales.

5 GROSS REVENUE

	Year ended 31 December	
	2016	2015
Local revenue	121,373,142	106,221,191
Export revenue	151,715	269,395
Gross revenue	**121,524,857**	**106,490,586**
Government levies		
Excise special provision tax	(87,424,175)	(80,359,074)
Value added tax	(2,325,814)	-
Tobacco tax	(27,496)	(32,026)
Total government levies	**(89,777,485)**	**(80,391,100)**
Net revenue	**31,747,372**	**26,099,486**

Chargeability to Value Added Tax and Nation Building Tax on the sale of cigarettes was removed effective from 25 October 2014 and consolidated into Excise (Special Provisions) Duty from the same date. These amendments were introduced through the National Budget presented by the Government of Sri Lanka in 2014 and certified on the 30 October 2015 via VAT (Amendment Act) No. 11 of 2015 and NBT (Amendment Act) No. 12 of 2015.

Value added tax (VAT) was reintroduced on cigarettes from 01 November 2016 based on Amendment Act No. 20 of 2016.

NOTES TO THE FINANCIAL STATEMENTS

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

6 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
Executive Directors' emoluments	117,519	104,038
Non- Executive Directors' remuneration	10,306	10,278
Salaries and wages	1,190,330	1,130,930
Defined contribution plans	79,391	79,335
Provision for voluntary separation scheme [(a) below]	11,445	120,168
Defined benefit obligations [Note 14]	(8,840)	(26,343)
	1,400,151	1,418,406

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

7 OTHER OPERATING INCOME

	Year ended 31 December	
	2016	2015
Profit on disposal of property, plant and equipment	18,858	10,203
Sundry sales / gains	5,292	12,962
	24,150	23,165

8 OPERATING PROFIT

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

	Year ended 31 December	
	2016	2015
Auditors' remuneration		
- Audit fees	3,663	3,810
- Audit related services	1,115	250
- Non-audit fees	2,500	-
Legal fees	61,199	69,266
Administrative expenses	1,042,240	957,973
Donation and CSR expenses	31,663	46,563
Technical and advisory fees	424,694	512,653
Write-off on property, plant and equipment	1,274	-
Provision for obsolete inventories	4,281	-
Provision for doubtful debts	4,707	6,343
Repairs and maintenance	273,492	376,105

9 FINANCE INCOME

	Year ended 31 December	
	2016	2015
Interest income		
- Interest income from bank deposits	850,389	561,250
Finance income	**850,389**	**561,250**

10 INCOME TAX EXPENSES

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

	Year ended 31 December	
	2016	2015
Current tax on profit for the year	8,621,154	7,383,956
Deferred tax [Note 19]	38,725	60,025
	8,659,879	**7,443,981**

	Year ended 31 December			
	2016		2015	
Profit before tax		21,219,338		18,078,309
Tax calculated at tax rate of 40%	40.00%	8,487,735	40.00%	7,231,324
Tax effects of:				
Tax on expenses not deductible for tax purposes	1.64%	348,541	2.22%	401,472
Tax on expenses deductible for tax purposes	(0.59%)	(125,889)	(0.93%)	(168,086)
Tax effect on rate differentials	(0.24%)	(50,508)	(0.11%)	(20,729)
Tax charge	40.81%	**8,659,879**	(41.18%)	**7,443,981**

11 EARNINGS PER SHARE

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

	Year ended 31 December	
	2016	2015
Net profit attributable to shareholders (in thousands)	12,559,459	10,634,328
Weighted average number of ordinary shares in issue	187,323,751	187,323,751
Basic earnings per share (Rs)	67.05	56.77
Diluted earnings per share (Rs)	67.05	56.77

NOTES TO THE FINANCIAL STATEMENTS

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

12 PROPERTY, PLANT AND EQUIPMENT - COMPANY

	Freehold land	Freehold Buildings	Capital work in progress	Building improvements / upgrade	Leasehold buildings	Machinery / equipment	Motor vehicles	Total
Cost								
At 1 January 2015	96,941	325,348	295,692	117,028	28,994	3,484,183	50,797	4,398,983
Additions to asset classes	-	4,220	(356,925)	45,021	-	307,684	-	-
Additions to WIP	-	-	561,313	-	-	-	-	561,313
Disposals	-	-	-	-	-	-	(13,807)	(13,807)
Write-offs	-	-	-	-	-	(32,438)	-	(32,438)
At 31 December 2015	96,941	329,568	500,080	162,049	28,994	3,759,429	36,990	4,914,051
Accumulated depreciation								
At 1 January 2015	-	206,836	-	54,337	28,278	2,355,378	45,717	2,690,546
Charge for the year	-	5,159	-	13,533	92	185,432	-	204,216
Disposals	-	-	-	-	-	-	(12,426)	(12,426)
Write-offs	-	-	-	-	-	(31,082)	-	(31,082)
At 31 December 2015	-	211,995	-	67,870	28,370	2,509,728	33,291	2,851,254
Closing net book amount	96,941	117,573	500,080	94,179	624	1,249,701	3,699	2,062,797
Cost								
At 1 January 2016	96,941	329,568	500,080	162,049	28,994	3,759,429	36,990	4,914,051
Additions to asset classes	125	9,466	(246,791)	1,971	-	235,229	-	-
Addition to WIP	-	-	420,447	-	-	-	-	420,447
Disposals	-	-	-	-	-	-	(26,213)	(26,213)
Transfers	(230)	(608)		-	-	-	-	(838)
Write-offs	(900)	(2,449)	-	-	(1,083)	(41,520)	(1,483)	(47,435)
At 31 December 2016	95,936	335,977	673,736	164,020	27,911	3,953,138	9,294	5,260,012
Accumulated depreciation								
At 1 January 2016	-	211,995	-	67,870	28,370	2,509,728	33,291	2,851,254
Charge for the year	-	5,677	-	14,215	395	189,662	148	210,097
Disposals	-	-	-	-	-	-	(23,591)	(23,591)
Adjustments	-	(559)	-	-	-	-	-	(559)
Write-offs	-	(2,075)	-	-	(1,083)	(41,520)	(1,483)	(46,161)
At 31 December 2016	-	215,038	-	82,085	27,682	2,657,870	8,365	2,991,040
Closing net book amount	95,936	120,939	673,736	81,935	229	1,295,268	929	2,268,972

(a) Property, plant and equipment includes fully depreciated assets which are in use, the cost of which as at the end of the reporting date amounted to Rs. 1,935 million (2015 - Rs. 1,936 million)

12 (A) COMPANY PROPERTY

The freehold land and buildings were valued by professional valuer Sunil Fernando & Associates (Pvt) Ltd. The values reported below are the market values of the respective properties as at 31 December 2016.

The Company follows the cost model as stated in its accounting policy to measure property, plant and equipment. The purpose of this valuation is for management information and to ascertain the current market prices of the freehold land and buildings owned by the Company. The valuation results have not been incorporated in the financial statements. The valuation of the properties mentioned below amounts to Rs.4,461,850,000

Property		Extent of Land			Revalued Amount
Asset Type	Location	A	R	P	Rs. '000
Land and Buildings	Colombo head office factory	7	2	22.50	3,448,000
Land and Buildings	Kandy industrial premises	5	0	26.28	489,100
Land and Buildings	Kandy commercial premises	2	1	18.75	156,200
Land and Buildings	Haliela depot, stores and quarters	1	1	38.50	20,500
Land and Buildings	Anuradhapura depot, stores and quarters	2	1	33.50	48,100
Land and Buildings	Nildanhinna depot, stores and quarters	2	1	4.00	20,900
Land and Buildings	Hanguranketa depot, stores and quarters	2	3	21.00	10,400
Land and Buildings	Melsiripura depot, stores and quarters	1	3	1.25	35,000
Land and Buildings	Ambale depot, stores and quarters	2	0	9.66	10,900
Land and Buildings	Wendaruwa quarters	0	2	0.00	2,300
Land and Buildings	Galewela depot, stores and quarters	5	3	39.87	81,900
Land and Buildings	Hunnasgiriya quarters	0	2	0.00	1,000
Land and Buildings	Nuwara'eliya	0	1	31.30	88,300
Land and Buildings	Kabitigollawa	3	0	0.00	5,250
Land	Walapane	2	0	3.00	2,800
Land	Naula	0	0	21.00	9,450
Land	Kalagedihena	1	2	22.00	31,750

(B) ASSET HELD FOR SALE

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

NOTES TO THE FINANCIAL STATEMENTS

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

13 INTANGIBLE ASSETS

Intangible assets comprise computer software development and purchase cost incurred by the Company that is not integral to the functionality of the related equipment as explained in Note 2.8

	As at 31 December	
	2016	2015
Cost		
At 1 January	112,565	110,979
Additions	-	1,586
At 31 December	112,565	112,565
Amortisation		
At 1 January	103,321	93,235
Amortisation during the year	8,358	10,086
At 31 December	111,679	103,321
Net book value	886	9,244

14 EMPLOYMENT BENEFITS

(a) Unfunded retirement benefit obligations

The retiring gratuity is a defined benefit plan covering employees of the Company. The Company's pre 1992 gratuity liability amounting to Rs 1.4 million (2015 - Rs 1.4 million) is not funded and has been provided for in the books of the Company.

	As at 31 December	
	2016	2015
Unfunded obligations	1,376	1,376

(b) Funded defined benefit plan

Subsequent to 1992, an externally funded policy was purchased from AIA Insurance Lanka PLC, which covered all 273 (2015 - 273) employees attached to the Company. The plan is fully funded by a policy obtained from AIA Insurance Lanka PLC. This policy meets the criteria mentioned in Sri Lanka Accounting Standard LKAS 19 - Employee Benefits, to classify it as a qualifying insurance policy.

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

	As at 31 December	
	2016	2015
Net defined benefit liability	526,181	620,781
Net defined benefit asset	(1,178,451)	(1,153,434)
Total employee benefit plan asset	(652,270)	(532,653)

The movement in the defined benefit (asset)/ liability over the year is as follows:

	Define benefit obligation	Fair value of plan assets	Net defined benefit (asset) / liability
At 1 January 2015	526,664	(1,116,389)	(589,725)
Included in profit or loss:			
Current service cost	38,527		38,527
Interest expense / (income)	53,273	(118,143)	(64,870)
	91,800	(118,143)	(26,343)
Included in OCI:			
Remeasurements :			
- Return on plan assets, excluding amounts included in interest expense	-	(3,627)	(3,627)
- Loss from change in financial assumptions	(3,624)	-	(3,624)
- Experience gains	90,666	-	90,666
	87,042	(3,627)	83,415
Other:			
Contributions :			
Payments from plan:	(84,725)	84,725	-
At 31 December 2015	620,781	(1,153,434)	(532,653)

	Present value of obligation	Fair value of plan assets	Total
At 1 January 2016	620,781	(1,153,434)	(532,653)
Included in profit or loss:			
Current service cost	44,958		44,958
Interest expense / (income)	57,034	(110,832)	(53,798)
	101,992	(110,832)	(8,840)
Included in OCI:			
Remeasurements:			
- Return on plan assets, excluding amounts included in interest expense	-	(26,359)	(26,359)
- Gain from change in financial assumptions	(67,560)	-	(67,560)
- Experience gains	(16,859)	-	(16,859)
	(84,419)	(26,359)	(110,778)
Other:			
Contributions:			
Payments from plan:	(112,173)	112,173	-
At 31 December 2016	526,181	(1,178,451)	(652,270)

NOTES TO THE FINANCIAL STATEMENTS

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

The principal assumptions the Company used are as follows:

	As at 31 December	
	2016	2015
Discount rate per annum	12.20%	10.10%
Annual salary increment rate	11.00%	11.00%

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

	Impact on defined benefit obligation 2016		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(26,358)	29,872
Annual salary increment rate	1.00%	29,946	(26,867)

	Impact on defined benefit obligation 2015		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate per annum	1.00%	(36,911)	38,570
Annual salary increment rate	1.00%	42,077	(36,960)

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

15 INVENTORIES

	As at 31 December	
	2016	2015
Raw materials	1,441,727	1,654,652
Work-in-progress	32,593	30,274
Finished goods	397,337	1,688,566
Consumables	254,945	213,517
Provision for obsolete and slow moving inventories	(59,053)	(54,772)
	2,067,549	3,532,237

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

16 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
Current		
Trade receivables	1,998,855	715,615
Receivables from related parties [Note 25 (iii)]	60,853	88,470
Advances to farmers	36,289	22,260
Staff loans	191,030	167,633
Other receivables	106,097	41,884
Less: provision for impairment of other receivables	(20,859)	(16,151)
	2,372,265	1,019,711
Non-current		
Receivables (Staff loans)	142,277	138,344
Total trade and other receivables	2,514,542	1,158,055

(i) Trade receivables wholly consist of amounts receivable from distributors. No impairment indicators are noted as all receivables are less than 6 months.

(ii) Provision for doubtful debts has been made on a case by case basis on loans made to farmers and on long outstanding balances included under other receivables.

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

	As at 31 December	
	2016	2015
Trade receivables	1,998,855	715,615
Receivables from related parties	60,853	88,470
Advances to farmers	36,289	22,260
Staff loans	333,307	305,977
Other receivables	106,097	41,884
Less: provision for impairment	(20,859)	(16,151)
	2,514,542	1,158,055

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

	As at 31 December	
	2016	2015
At 1 January	16,151	9,808
Provision for the period	11,116	7,904
Write-offs during the period	(5,833)	(318)
Reversals during the period	(575)	(1,243)
At 31 December	20,859	16,151

NOTES TO THE FINANCIAL STATEMENTS

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

17 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
Cash at bank and in hand	11,412,280	11,378,144
Short-term investments	3,638,044	-
Cash and cash equivalents (excluding bank overdrafts)	15,050,324	11,378,144

18 STATED CAPITAL

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

All issued shares are fully paid.

19 DEFERRED TAX LIABILITIES

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

The movement on the deferred tax account is as follows:

	As at 31 December	
	2016	2015
At beginning of the year	408,209	348,184
Charge for the year [Note10]	38,725	60,025
At end of the year	446,934	408,209

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

	Accelerated depreciation	Defined benefit obligation	Total
Balance as at 1 January 2015	(349,060)	876	(348,184)
Charged to the statement of profit or loss	(59,699)	(326)	(60,025)
At 31 December 2015	(408,759)	550	(408,209)
Balance as at 1 January 2016	(408,759)	550	(408,209)
Charged to the statement of profit or loss	(38,725)	-	(38,725)
At 31 December 2016	(447,484)	550	(446,934)

20 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
Trade payables	423,993	305,583
Payable to related parties [Note 25 (iii)]	344,546	1,338,859
Accrued expenses	2,623,537	2,497,993
Other payables incl. government levies	8,600,405	6,231,940
	11,992,481	10,374,375

21 DIVIDENDS PAYABLE

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

	As at 31 December	
	2016	2015
At 1 January	936,618	824,224
Dividends declared [Note (c)]	12,082,383	7,764,570
Dividends paid	(10,663,217)	(7,595,929)
Payments/transfers to unclaimed dividend [Note (b)]	(14,236)	(56,247)
At 31 December	2,341,548	936,618

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

	As at 31 December	
	2016	2015
At 1 January	195,307	157,265
Transfers	14,236	56,247
Payments	(4,071)	(7,321)
Write back	(11,546)	(10,884)
At 31 December	193,926	195,307

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

	2016		2015	
	per share	Rs.	per share	Rs.
Final dividend - 2015	3.70	693,098	-	-
First interim - 2016/2015	15.60	2,922,251	3.45	646,267
Second interim - 2016/2015	16.70	3,128,307	24.00	4,495,771
Third interim - 2016/2015	16.00	2,997,180	9.00	1,685,914
Fourth interim - 2016/2015	12.50	2,341,547	5.00	936,618
	64.50	12,082,383	41.45	7,764,570

NOTES TO THE FINANCIAL STATEMENTS

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

22 CONTINGENT LIABILITIES

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

(a) Rs 500 Mn (2015- Rs.500Mn) Bank Guarantee issued in favour of Commissioner General of Excise to obtain certificate of registration (Manufacturing Licence) in accordance with the provisions of the Tobacco Tax Act No. 8 of 1999 (as amended).

(b) Shipping Guarantees have been issued amounting to Rs 152.2 Mn (2015- Rs. 21.2 Mn), for goods cleared before the arrival of original bank documents.

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

23 COMMITMENTS

Capital commitments

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

Financial commitments

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

Operating lease commitments - Company as lessee

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

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

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

	As at 31 December	
	2016	2015
Less than 1 year	6,872	139,641
More than 1 year and less than 5 years	201,212	176,697
More than 5 years	43	-
Total	208,127	316,338

Expenses relating to operating leases during the year:

	Year ended 31 December	
	2016	2015
Minimum lease payments	130,956	162,466
	130,956	162,466

24 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before tax to cash generated from operations:

	Year ended 31 December	
	2016	2015
Profit before tax	21,219,338	18,078,309
Adjustments for:		
Depreciation [Note 12]	210,097	204,216
Amortisation of intangible assets [Note 13]	8,358	10,086
Write off of debts	1,274	1,356
Interest received [Note 9]	(850,389)	(561,250)
Notional interest income	-	(447)
Net interest on retirement benefit obligations [Note 14]	(8,840)	(26,343)
Provision for obsolete inventories and doubtful debts	8,988	5,798
Gain on disposal of property, plant and equipment [Note 7]	(18,858)	(10,203)
Changes in working capital :		
- inventories	1,464,688	(466,836)
- receivables	(1,356,488)	(74,506)
- trade and other payables	1,617,533	3,249,777
Cash generated from operations	22,295,701	20,409,957

25 RELATED PARTY TRANSACTIONS

Transactions with related parties

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

Non-recurrent related party transactions

Any non-recurrent related party transactions of which the aggregate value exceeds 10% of the equity or 5% of the total assets whichever is lower of the Company as per 31 December 2015 audited financial statements requires additional disclosures in the 2016 Annual Report under Securities and Exchange Commission of Sri Lanka (SEC) Code on Related Party Transactions and Section 09 of the Colombo Stock Exchange (CSE) listing rules. However, Ceylon Tobacco Company PLC has not entered into any transaction with related party that exceeds the specified thresholds.

Recurrent related party transactions

Any recurrent related party transactions of which the aggregate value exceeds 10% of revenue of the Company as per 31 December 2015 audited financial Statements requires additional disclosures in the 2016 Annual Report under SEC Code on Related Party Transactions and Section 09 of the CSE listing rules. However, Ceylon Tobacco Company PLC has not entered into any transaction with a related party that exceeds the specified thresholds.

NOTES TO THE FINANCIAL STATEMENTS

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

The following transactions were carried out with related parties:

(i) Sale of goods/ services

	Year ended 31 December	
	2016	2015
British American Shared Services (GSD) Limited	-	11,726
BAT Singapore Private Limited	-	22,394
BAT Marketing (Singapore) Private Limited	75,103	145,856
BAT Uganda	-	1,584
PT Bentoel Internasional Investama Tbk.	511	
PT Bentoel Prima	1,331	
BAT Korea Ltd	401	
British American Tobacco (Malaysia) Berhad	2,404	
BAT (Holdings) Limited	988	
	80,738	181,560

(ii) Purchase of goods/ services

	Year ended 31 December	
	2016	2015
BAT (Hamburg International) GmBH	4,322	22,474
BAT AsPac Service Centre Sdn Bhd	179,952	120,714
BAT Investments Limited	424,694	512,653
Benson & Hedges (Overseas) Limited	8,995	8,183
BAT Asia Pacific Region Limited	3,897	41,869
BAT Japan Limited	2,086	1,890
BAT Korea Limited	814	15,170
BAT (Holdings) Limited	103,812	75,182
British American Shared Services (GSD) Limited	439,368	473,391
BAT Souza Cruz S.A	-	11,004
Tobacco Importers & Manufacturers Sdn Berhad	27,832	9,399
BAT SAA Service (Private) Limited	27,771	39,713
BAT Singapore Private Limited	165,137	201,554
BAT Australia Ltd	1,057	-
PT Bentoel Internasional Investama Tbk.	2,445	-
BAT Australia Pty Ltd	80,283	-
BAT Germany GMBH	984	-
British American Tobacco (GLP) Limited	311,074	-
	1,784,523	1,533,196

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

	As at 31 December	
	2016	2015
Receivable from related parties [Note 16]		
British American Shared Services (GSD) Limited	38,850	11,726
Pakistan Tobacco Company Limited	6,342	5,526
BAT Singapore Private Limited	-	22,394
BAT Marketing (Singapore) Private Limited	-	47,240
BAT Uganda	-	1,584
British American Tobacco (Holdings) Limited	15,033	-
PT Bentoel Prima	628	-
	60,853	88,470

	As at 31 December	
	2016	2015
Payable to related parties [Note 20]		
BAT Investments Limited		105,811
BAT ASPAC Service Centre Sdn Bhd	97,851	103,439
BAT (Hamburg International) GmBH		22,474
BAT (Holdings) Limited	155,010	46,241
Tobacco Importers & Manufacturers Sdn Berhad	35,674	8,781
BAT Singapore Private Limited	22,258	146,877
BAT Marketing (Singapore) Private Limited	4,031	5,481
British American Shared Services (GSD) Limited	1,914	850,094
BAT Souza Cruz S.A	2,620	2,505
Benson & Hedges (Overseas) Limited	12,509	3,397
BAT Asia Pacific Region Limited	3,970	41,869
BAT Japan Limited	3,640	1,890
BAT (Germany) GmbH	163	-
BAT Australia Limited	1,036	-
British American Tobacco	1,425	-
PT Bentoel Internasional Investama	2,445	-
	344,546	1,338,859

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

NOTES TO THE FINANCIAL STATEMENTS

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

(iv) Key management compensation

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

	Year ended 31 December	
	2016	2015
Salaries and other short-term employee benefits	221,469	189,753
Share based payments	17,048	3,335

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

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

As at 31 December 2016, the fair value of the phantom shares granted was Rs.24 million.

26 EVENTS AFTER THE REPORTING PERIOD

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

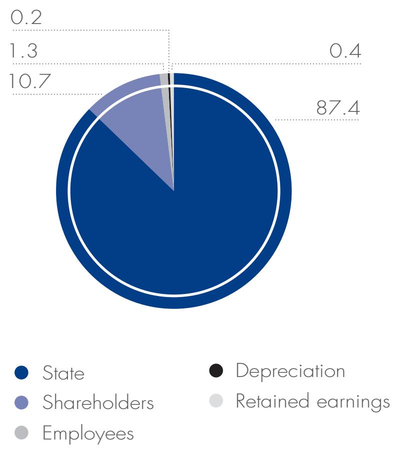
Dividends:

The directors recommend a final dividend of Rs. 6.00 per share for 2016. The final dividend is subject to the approval of the shareholders at the Annual General Meeting to be held on 25th April 2017.

Once approved by the shareholders, the final dividend will be payable on 05th May 2017.

STATEMENT OF VALUE ADDED

	As at 31 December	
	2016	2015
Gross revenue	121,524,857	106,490,586
Supplied materials & services	(9,783,967)	(6,972,884)
Net interest income	850,389	561,250
Other operating income	24,150	23,165
	112,615,429	100,102,117
State	98,437,364	87,835,081
Shareholders	12,082,383	7,764,570
Employees	1,400,151	1,418,406
Depreciation	218,455	214,302
Retained Profit	477,076	2,869,758
	112,615,429	100,102,117



SHAREHOLDER INFORMATION

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 2016	3431 (2015 -3616)

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	2,494	532,411	0.28	34	9,386	0.01	2,528	541,797	0.29
1001 - 10,000	865	2,495,747	1.34	48	193,777	0.10	913	2,689,524	1.44
10,001 - 100,000	71	1,859,449	0.99	29	1,005,444	0.54	100	2,864,893	1.53
100,001 - 1,000,000	1	194,178	0.10	18	3,681,221	1.96	19	3,875,399	2.06
Over 1,000,000	-	-	-	5	177,352,138	94.68	5	177,352,138	94.68
Total	3,431	5,081,785	2.71	134	182,241,966	97.29	3,565	187,323,751	100.00

COMPUTATION OF % OF PUBLIC SHAREHOLDING

	No of Shares As at 31 December	
	2016	2015
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)		
S.C.Ratnayake	644	644
Michael Koest (Managing Director & CEO)	-	-
	644	644
Parent Company	157,590,931	157,590,931
Subsidiaries or Associate Companies of Parent	-	-
Subsidiaries or Associate Companies	-	-
10% or more holding	-	-
Directors shareholding (including spouses & children)	644	644
Public Holding	29,732,176	29,732,176
	187,323,751	187,323,751
Number of shareholders holding the Public Holding	3,563	3,614
Public Holding as a % of issued number of shares	15.87	15.87

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

CTC SHARE PERFORMANCE AT COLOMBO STOCK EXCHANGE (CSE)

Reuters' code CTC,CM

Year	2016	2015
No. of share transactions for the year	2,954	2,807
No. of Shares traded	3,746,928	2,389,225
Price Movements Rs.		
Highest	1,140.00	1,124.00
Lowest	797.00	881.00
Closing Price	806.50	992.50
Market Capitalisation (Rs. million)	151,076	185,919
Closing Price * Share Capital		

SHAREHOLDER INFORMATION

20 LARGEST SHAREHOLDERS AS AT 31 DECEMBER 2016

	As at 31 December		As at 31 December	
	No. of Shares	%	No of Shares	%
British American Tobacco Holdings(Sri Lanka) BV	157,590,931	84.13	157,590,931	84.13
FTR Holdings SA	15,585,910	8.32	15,585,910	8.32
Pershing LLL SA Averbach Grauson & Co.	1,917,010	1.02	1,654,700	0.88
HSBC INTL NOM LTD - SSBT-BMO Incestments 11 (Ireland)	1,195,019	0.63	-	0.00
HSBC INTL NOM LTD-State Street London	1,063,268	0.57	737,546	0.39
Northern Trust Company S/A - Coupland Cardiff Funds PLC	416,285	0.22	-	0.00
RBC Investor Services Bank-COELI SICAV	374,476	0.20	358,461	0.19
HSBC INTL NOM LTD-JPMCB-Long Term Economic Investment Fund	339,568	0.18	-	0.00
Mrs Jasbinderjit Kaur Piara Singh	312,063	0.17	312,063	0.17
Miss Neesha Harnam	230,821	0.12	238,000	0.13
Harnam Holdings SDN BHD	230,043	0.12	230,043	0.12
HSBC INTL NOM LTD-SSBT Frank Russel Trust Company	200,124	0.11	-	0.00
HSBC INTL NOM Ltd - SSBT-Deutsche Bank	195,600	0.10	195,600	0.10
Bank of Ceylon No 1 Account	194,178	0.10	230,778	0.12
HSBC INTL NOM - UBS AG Zurich	190,730	0.10	-	0.00
HSBC INTL NOM LTD-JPMCB-New Emeging Markets	150,615	0.08	-	0.00
HSBC INTL NOM Ltd - UBS AG - Singapore	150,000	0.08	150,000	0.08
HSBC INTL NOM LTD-SSBT Multipartner SICAV-WMP	150,000	0.08	-	0.00
HSBC INTL NOM Ltd-Parametric Emerging Markets	140,993	0.08	133,931	0.07
HSBC INTL NOM LTD-BMO LGM Frontier Markets Equity Fund	135,730	0.07	-	0.00
Sub Total	180,763,364	96.50	177,417,963	94.71
Others	6,560,387	3.50	9,905,788	5.29
Total Shares	187,323,751	100.00	187,323,751	100.00

NOTICE OF MEETING

NOTICE IS HEREBY given that the Eighty Sixth 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, 25 April 2017 at 10.00 am for the following purposes:

(i) To receive consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31 December 2016 and the Report of the Auditors thereon;

(ii) To declare a Final Dividend;

(iii) To re-elect the following Directors;

- To re-elect Mr. Kenneth Allen who comes up for retirement by rotation under the Company's Articles of Association;
- To re-elect Ms. Premila Perera who comes up for retirement by rotation under the Company's Articles of Association;
- To re-elect Ms. Emma Ridley who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association;

(iv) To authorise the Directors to determine and make donations;

(v) To re-appoint Messrs KPMG Chartered Accountants as Company's Auditors and to authorise the Directors to determine their remuneration.

By Order of the Board

Ranjan Seneviratne
COMPANY SECRETARY

24 February 2017

NOTICE OF MEETING

NOTES

1 A member entitled to attend and vote at the above mentioned meeting is entitled to appoint a Proxy, who need not also be a member, to attend instead of him. Such a Proxy may vote on a poll (and join in demanding a poll) but not on a show of hands. The Proxy may not speak at the meeting unless expressly authorised by the instrument appointing him.

2 A Form of Proxy is attached to the Report

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

IMPORTANT

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

1. Admission is granted on the production of the National Identity Card/Passport/ Driving 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.

FORM OF PROXY

(Please read the notes carefully before completing this form)

I/We the undersigned (please print) ....
of ....
being a member/members of the Company, hereby appoint:...
of..whom failing

Susantha Ratnayake	whom failing
Michael Koest	whom failing
Emma Ridley	whom failing
Premila Perera	whom failing
Javed Iqbal	whom failing
Dinesh Weerakkody	whom failing
Kenneth Allen	

as my / our Proxy to represent me / us and * .... vote for me / us and on my / our behalf at the Annual General Meeting of the Company to be held at 10.00 am on Tuesday, 25 April 2017 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
1	To receive and adopt the Report of the Directors and the Financial Statements for the year ended 31st December 2016		
2	To declare a Final Dividend		
3	To re-elect Kenneth Allen who comes up for retirement by rotation under the Company's Articles of Association		
4	To re-elect Ms Premila Perera who comes up for retirement by rotation under the Company's Articles of Association		
5	To re-elect Ms Emma Ridley who was appointed since the last Annual General Meeting, who comes up for re-election under the Company's Articles of Association		
6	To authorise the Directors to determine and make donations		
7	To re-appoint Messrs KPMG Chartered Accountants as Company's Auditors and to authorise the Directors to determine their remuneration.		

....
Signature

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

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

FORM OF PROXY

INSTRUCTIONS AS TO COMPLETION :

1. The persons mentioned in the Form of Proxy are Directors of the Company and they are willing to represent any Shareholder as Proxy and vote as directed by the Shareholder. They will not, however, be willing to speak or move or second any amendment to 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, not less than 48 hours before the time for holding the meeting.

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

GRI CONTENT INDEX TOOL

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Section included	Page reference
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organisation and the organisation's strategy for addressing sustainability.	Chairman's Message	13
Organisational Profile			
G4-3	Name of the organisation	Ceylon Tobacco Company PLC	-
G4-4	Primary brands, products, and services	Our Products	8
G4-5	The location of the organisation's headquarters	Colombo, Sri Lanka	-
G4-6	Number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report.	Sri Lanka	-
G4-7	The nature of ownership and legal form	Corporate Information	Inner Back Cover
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Our Consumers	83
G4-9	The scale of the organisation, including: - Total number of employees - Total number of operations - Net sales (for private sector organisations) or net revenues (for public sector organisations) - Total capitalisation broken down in terms of debt and equity (for private sector organisations) - Quantity of products or services provided	About Us Financial Capital	7 76
G4-10	a. The total number of employees by employment contract and gender. b. The total number of permanent employees by employment type and gender. c. The total workforce by employees and supervised workers and by gender. d. The total workforce by region and gender. e. Report whether a substantial portion of the organisation's work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. f. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	Human Capital	93
G4-11	The percentage of total employees covered by collective bargaining agreements.	Human Capital	100
G4-12	Describe the organisation's supply chain.	Our Customers Our Business Partners	85 - 92

GRI CONTENT INDEX TOOL

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Section included	Page reference
Strategy and Analysis			
G4-13	Any significant changes during the reporting period regarding the organisation's size, structure, ownership, or its supply chain, including: - Changes in the location of, or changes in, operations, including facility openings, closings, and expansions - Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations) - Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	None	-
G4-14	Whether and how the precautionary approach or principle is addressed by the organisation.	Managing Risk	51
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses.	About This Report	Inner Front Cover
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation is a member.	Ceylon Chamber of Commerce Employers Federation The American Chamber of Commerce Council for Business with Britain	-
Identified Material Aspects and Boundaries			
G4-17	List all entities included in the organisation's consolidated financial statements or equivalent documents.	Financial Statements	122 - 152
	b. Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report.	About This Report	Inner Front Cover
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organisation has implemented the Reporting Principles for Defining Report Content.	How We Create Value	64
G4-19	List all the material Aspects identified in the process for defining report content.	Determining Materiality	65
G4-20	For each material Aspect, the Aspect Boundary within the organisation	Determining Materiality	166
G4-21	For each material Aspect, report the Aspect Boundary outside the organisation	Determining Materiality	166
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	There are no restatements	-
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	None	-
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation.	Stakeholder Engagement	60

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Section included	Page reference
Strategy and Analysis			
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	60
G4-26	The organisation's approach to stakeholder engagement	Stakeholder Engagement	60 - 63
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	60 - 63
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	About This Report	Inner Front Cover
G4-29	Date of most recent previous report (if any).	Financial year ended 31st December 2015	-
G4-30	Reporting cycle (such as annual, biennial)	Annual	
G4-31	The contact point for questions regarding the report or its contents.	About This Report	Inner Front Cover
G4-32	a. Report the 'in accordance' option the organisation has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	Core About This Report	 Inner Front Cover
G4-33	a. Report the organisation's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organisation and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report.	The Company has not obtained external assurance on this Report	-
Governance			
G4-34	The governance structure of the organisation, including committees of the highest governing body.	Leadership and Governance	28 - 39
Ethics and Integrity			
G4-56	The organisation's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Vision and Strategy	66 - 67

GRI CONTENT INDEX TOOL

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page reference
Strategy and Analysis			
ECONOMIC ASPECTS			
Economic Performance			
G4-EC1	Direct economic value generated	Statement of Value Added	153
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Natural Capital	104 - 108
G4-EC3	Coverage of defined benefit plan obligations	Financial Statements	122 - 152
ENVIRONMENTAL ASPECTS			
Materials			
G4-EN1	Materials used by weight or volume	Natural Capital	105
Energy			
G4-EN3	Energy consumption within the organisation	Natural Capital	105
G4-EN5	Energy intensity	Natural Capital	105
G4-EN6	Reduction of energy consumption	Natural Capital	105 - 106
Water			
G4-EN8	Total water withdrawal by source	Natural Capital	107
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions	Natural Capital	108
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	Natural Capital	108
G4-EN18	Greenhouse gas (GHG) emissions intensity	Natural Capital	108
Effluents and Waste			
G4-EN23	Total weight of waste by type and disposal method	Natural Capital	107
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	-
Supplier Environmental Assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Our Business Partners	85 - 92
Environmental Grievance Mechanisms			
G4-EN33	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	No Environmental Grievances filed	-
SOCIAL ASPECTS			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Human Capital	96
Employment: Occupational health and safety			
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Human Capital	100

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/ Reasons for omission	Page reference
Strategy and Analysis			
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Human Capital	97
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Human Capital	97 - 98
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Human Capital	97
Employment: Labour practices grievance mechanism			
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Human Capital	100
Society: Local Communities			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programmes	Investing in Communities	109 - 117
Product Responsibility: Customer Health and Safety			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Our Consumers	82 - 84
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Our Consumers	82 - 84
Product and Service Labelling			
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	Our Consumers	82 - 84
Product Responsibility: Compliance			
G4-PR9	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Our Consumers	82 - 84

MATERIAL ASPECTS MAPPED TO GRI-G4 DISCLOSURES

	CTC's material issues	Corresponding GRI-G4 material aspect	Aspect boundary
Performance	Economic Performance	Economic Performance, Market presence, Procurement practices	Internal and External
	Growth		Internal and External
	Productivity		Internal
Harm Reduction	Scientific Research	Customer health and safety	External
	Product Innovation	Customer health and safety	External
Sustainable Agriculture and farmer livelihoods	Supporting farmers	External	
	Procurement practices, Supplier environmental assessment, Supplier assessment for labour	External	
	Environmental impacts of tobacco growing	External	
	Materials	Internal and External	
	Agricultural policy	Internal and External	
Corporate Behaviour	Marketing practices	Product and service labelling, Marketing communications, Compliance (PR)	Internal and External
	Youth smoking prevention		External
	Regulatory engagement		External
	Tobacco trafficking		External
	Health and safety	Health and Safety	External
	Minimising environmental footprint	Energy, Water, Biodiversity, Emissions, Effluents and Waste, Compliance (EN), Transport, Overall (EN)	External
Other Priorities	Non-Leaf supply chain	Procurement practices, Supplier environmental assessment, Supplier assessment for labour	External
	Retailer relationships		External
	Workplace human rights	Diversity and equal opportunity, Equal remuneration, Child labour	Internal
	Corporate Social Investment	Local Communities	External
	CSI Governance		Internal
	Employee engagement	Employment, Labour management relations, Labour grievance mechanism, Freedom of Association	Internal
	Training and development	Training and education	Internal
	Litigation		

APPENDICES

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Environmental Policy Statement

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

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

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

Agriculture

We are committed to:

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

Operations and Trade

We are committed to:

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

APPENDICES

Sustainable Tobacco Programme (STP) Policy

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Biodiversity Statement

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

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

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

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

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

APPENDICES

CEYLON TOBACCO COMPANY
A member of the British American Tobacco Group

Health & Safety Policy Statement

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

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

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

Michael Koest
Managing Director & CEO
Ceylon Tobacco Company PLC
22/07/2016

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CORPORATE INFORMATION

NAME OF THE COMPANY

Ceylon Tobacco Company PLC
Reg. No. PQ 29

REGISTERED OFFICE

178, Srimath Ramanathan Mawatha,
Colombo 15

LEGAL FORM

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

REGISTRARS

SSP Corporate Services (Private) Limited

LEGAL ADVISORS

Sudath Perera Associates
Attorneys-at-Law

Messrs Julius & Creasy
Attorneys-at-Law

Messrs FJ & G De Saram
Attorneys-at-Law

AUDITOR

Messrs KPMG Chartered Accountants

BANKERS

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

HOLDING COMPANY

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

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CEYLON TOBACCO COMPANY

A member of the British American Tobacco Group