

CHAIRMAN'S MESSAGE



SUSANTHA RATNAYAKE

Chairman



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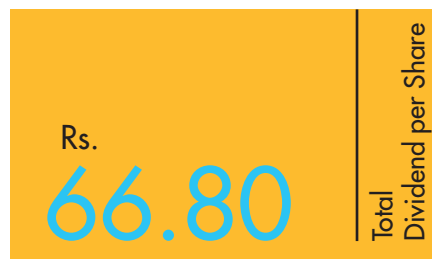
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I am pleased to report to our shareholders that Ceylon Tobacco Company PLC (CTC) delivered yet another year of strong financial performance, with earnings per share increasing by 18.1% to Rs. 67.05 in 2016. The Board has approved a final dividend of 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%.

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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.

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

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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.

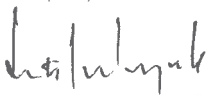
Globally recognised as a sustainability champion, British American Tobacco (BAT) was the first tobacco company to be included in the DOW Jones Sustainability Index (DJSI), and has consistently maintained its position as the industry leader in economic, environmental and social performance based on the 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.



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Chairman

24 February 2017

