Independent Auditors' Report
To the Shareholders of The West Indian Tobacco Company Limited
Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The West Indian Tobacco Company Limited ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Trinidad and Tobago, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

- The risk- Revenue is recognised when the control of products have been transferred to the customer. The Company operates in a competitive industry and in markets where volume growth is constrained as a result of reducing disposable incomes and illicit trade. Under ISAs, there is a presumed risk that revenue may be overstated because of fraud resulting from the pressure on management to achieve performance targets for the year. The Board of the Company focuses on sales volumes and revenues as key performance measures, which could create an incentive for premature revenue recognition.

- Our response- Our audit procedure included considering the appropriateness of the Company's revenue recognition accounting policies and assessed compliance with the policies in terms of applicable accounting standards. We also tested the operating effectiveness of the automated controls around the timely and accurate recording of sales transactions.

We performed a detailed inspection of contracts with distributors to determine the terms of trade in particular the transfer of control of the performance obligation to the distributors. Our test of details work focused on sales transactions on either side of the reporting date, obtaining evidence to support the appropriate timing of revenue recognition, based on terms and conditions set out in distributor's contracts and delivery documents.

Furthermore, we also tested credit notes issued after the reporting date to assess whether the related revenue was recognised in the correct accounting period.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the financial statements and our auditors' report thereon. The 2018 Annual Report is expected to be made available to us after the date of this auditors report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditors' Report *(continued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditors' report is Dushyant Sookram.

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
February 22, 2019

Statement of Financial Position

December 31, 2018 (Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	2017 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	238,252	211,974
Deferred income tax asset	6	19,354	20,671
		257,606	232,645
Current assets			
Inventories	7	48,707	44,751
Trade and other receivables	9	74,469	85,119
Taxation recoverable		7,189	7,189
Cash and cash equivalents	10	284,870	234,655
		415,235	371,714
Total assets		672,841	604,359
EQUITY			
Share capital	11	42,120	42,120
Revaluation surplus	5(a)	61,786	47,495
Retained earnings		309,771	288,210
Total equity		413,677	377,825
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	6	37,465	33,641
Retirement benefit obligation	12	52,963	53,834
Post-employment medical benefit obligation	12	3,192	3,771
		93,620	91,246
Current liabilities			
Trade and other payables	13	107,993	95,323
Due to parent company	19(d)	3,753	2,618
Dividends payable		40,692	35,390
Taxation payable		13,106	1,957
		165,544	135,288
Total liabilities		259,164	226,534
Total equity and liabilities		672,841	604,359

The accompanying notes are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on February 22, 2019 and signed on their behalf by;

________________ Chairman ________________ Managing Director

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018 (Expressed in Trinidad and Tobago Dollars)

	Notes	2018 $'000	2017 $'000
Revenue	14	919,644	867,649
Cost of sales	15	(208,628)	(205,128)
Gross profit		711,016	662,521
Expenses			
Distribution costs	15	(22,428)	(12,695)
Administrative expenses	15	(79,760)	(67,285)
Other operating expenses	15	(23,692)	(34,064)
Impairment (loss) on trade receivables		(26)	–
Operating profit		585,110	548,477
Interest income		2,200	1,195
Profit before taxation		587,310	549,672
Taxation	16	(182,214)	(169,454)
Profit for the year		405,096	380,218
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Gain on revaluation of property, plant and equipment – net of tax		14,990	–
Re-measurement of retirement and post-employment benefit obligations – net of tax		2,428	10,879
Other comprehensive income – net of tax		17,418	10,879
Total comprehensive income for the year		422,514	391,097
Earnings per ordinary share	17	4.81	4.51

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2018 (Expressed in Trinidad and Tobago Dollars)

	Note	Share Capital $'000	Revaluation Surplus $'000	Retained Earnings $'000	Shareholders' Equity $'000
Year ended 31 December 2018					
Balance at January 1, 2018		42,120	47,495	288,210	377,825
Comprehensive income					
Profit for the year		–	–	405,096	405,096
Other comprehensive income					
Re-measurement of retirement and post employment benefit obligations – net of tax		–	–	2,428	2,428
Gain on revaluation of land and building – net of tax		–	14,990	–	14,990
Depreciation transfer on buildings – net of tax		–	(699)	699	–
Transactions with owners					
Dividends	18	–	–	(386,662)	(386,662)
Balance at December 31, 2018		42,120	61,786	309,771	413,677
Year ended December 31, 2017					
Balance at January 1, 2017		42,120	48,194	328,565	418,879
Comprehensive income					
Profit for the year		–	–	380,218	380,218
Other comprehensive income					
Re-measurement of retirement and post employment benefit obligations – net of tax		–	–	10,879	10,879
Depreciation transfer on buildings – net of tax		–	(699)	699	–
Transactions with owners					
Dividends	18	–	–	(432,151)	(432,151)
Balance at December 31, 2017		42,120	47,495	288,210	377,825

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended December 31, 2018 (Expressed in Trinidad and Tobago Dollars)

	Note	2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		587,310	549,672
Adjustments for:			
Depreciation		10,074	18,781
Loss on disposal of property, plant and equipment		1,436	701
Net increase in retirement and other post employment benefit obligations excluding actuarial losses		2,019	3,045
Interest income		(2,200)	(1,195)
Operating profit before working capital changes		598,639	571,004
Changes in working capital:			
Increase in inventories		(3,956)	(1,148)
Decrease in trade and other receivables		10,650	7,959
Increase in trade and other payables		12,671	4,934
Increase in due to parent company		1,135	283
Cash generated from operating activities		619,139	583,032
Taxation paid		(172,078)	(165,057)
Net cash from operating activities		447,061	417,975
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(17,683)	(28,040)
Interest received		2,200	1,195
Net cash used in investing activities		(15,483)	(26,845)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid		(381,363)	(425,958)
Net increase / (decrease) in cash and cash equivalents		50,215	(34,828)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		234,655	269,483
CASH AND CASH EQUIVALENTS AT END OF YEAR	10	284,870	234,655
Represented by:			
Cash at bank and in hand		284,870	234,655

The accompanying notes are an integral part of these financial statements.

1. General Information

The West Indian Tobacco Company Limited (the Company) is incorporated in the Republic of Trinidad and Tobago.

The Company is listed on the Trinidad and Tobago Stock Exchange. The address of the registered office is Corner Eastern Main Road and Mount D'Or Road, Champs Fleurs, Trinidad, West Indies. It is a subsidiary of British American Tobacco (Investments) Limited, a company registered in the United Kingdom. Its ultimate parent company is British American Tobacco p.l.c., a company registered in the United Kingdom.

The principal business activities of the Company are the manufacture and sale of cigarettes.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of land and buildings at fair value through other comprehensive income and the defined benefit pension plan assets measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

Changes in significant accounting policies

The Company has initially applied IFRS 9 *Financial Instruments* (**IFRS 9**) and IFRS 15 *Revenue from Contracts with Customers* (**IFRS 15**) from 1 January 2018. A number of other new standards are also effective from 1 January 2018 but do not have a material effect on the Company's financial statements.

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables.

The effect of initially applying these standards is mainly attributable to an increase in impairment losses recognised on trade receivables.

- **IFRS 9**

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, the Company's approach was to include the impairment of Trade receiveables in other operating expenses. There were no impairment losses charged on financial assets for 2017.

Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The following summarises the impact, net tax, of transition to IFRS 9 on the opening balances of retaining earnings:
Recognition of expected credit losses under IFRS 9, $0

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

Changes in significant accounting policies *(continued)*

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

The following table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at 1 January 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements.

	Original Classification under IAS 39	New Classification under IFRS 9	Original Carrying Amount	New Carrying Amount
Financial assets				
Trade receivables	Loans and receivables	Amortised cost	59,896	59,896
Cash and cash equivalents	Loans and receivables	Amortised cost	234,655	234,655
Financial liabilities				
Payables	Other financial liabilities	Other financial liabilities	95,323	95,323

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at January 1, 2018 results in no additional allowance for impairment on trade receivables.

2. **Significant Accounting Policies** *(continued)*

(a) *Basis of preparation* *(continued)*

Changes in significant accounting policies *(continued)*

- **IFRS 15**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when the customer obtains control of the goods and services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The Company's adoption of IFRS 15 had no impact on revenue recognition.

(i) New standards, amendments and interpretations adopted by the Company

The following amendments to standards have been adopted by the Company for the first time for the financial year beginning on January 1, 2018:

- IFRS 9, *'Financial Instruments'*, addresses the classification, measurement and derecognition of financial assets and financial liabilities. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. In applying the standard, the Company has considered its history of credit losses (i.e. write-off of accounts receivables) over the past 5 years (i.e. 2013 to 2017) and noted no instances of same.

  However, even with a history of no trade receivable write offs, IFRS 9 still requires consideration of the possibility that a credit loss can occur and as such, the Company has considered at a minimum to use a provision matrix approach wherein 0.05% of the invoice value of all external trade receivables which are still assumed to be recoverable at each balance sheet date, be the basis for provision calculation under IFRS 9.

  For the year ended December 31, 2018, this translated to the inclusion of a Potential Credit Loss included in the Company's expenses of $26,245. The carrying value of total trade receivables reflect all contractual cash flows the Company expects to receive from its customers.

- IFRS 15, *'Revenue from Contracts with Customers,'* deals with the principle that revenue is recognised when control of a good or service transfers to a customer, so the notion of control replaces the existing notion of risks and rewards.

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(i) New standards, amendments and interpretations adopted by the Company (continued)

The findings based on the assessment done indicated the following:

- For domestic sales, control passes immediately and revenue is recognised at the point of delivery.
- There are no standard trade credits given to customers however a number of trade incentives are made to our indirect customers. These payments are made for distinct goods and the fair value of such goods can be reasonably estimated. The value of the payments does not exceed the fair value of the goods.
- The Company does not have any bad debts or expect to have any loss event or credit risk which would require impairment.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2018 are not material to the Company.

(ii) New standards, amendments and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Company, in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

- IFRS 16, *'Leases'*, replaces IAS 17 Leases with effect from 1 January 2019 and effectively removes the distinction between operating leases and finance leases requiring all leasing arrangements (which are not purely service contracts) to be capitalised as "right to use" assets (with a corresponding financial liability on the balance sheet). This would apply to all leasing arrangements. IAS 17 Leases split all leasing arrangements into finance leases and operating leases. Since the accounting for operating leases and service contracts was the same (recognised in profit and loss) there was never a need under IAS 17 to separately identify these and account for them separately. Under IFRS 16, however, Service contracts will continue to be recognised as a charge in the profit and loss account and will not be capitalised.

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation *(continued)*

(ii) New standards, amendments and interpretations not yet adopted (continued)

- IFRS 16, 'Leases' *(continued)*

The findings based on the assessment done by the Company thus far indicate the following:

Operating leases currently under IAS 17 as at December 31, 2018 which have right of use assets subject to capitalisation under IFRS 16 relate solely to the Company's leased vehicles and rental of a warehouse both connected to trade and merchandising activites

– These leasing arrangements in existence at January 1, 2019 would be recognised (capitalised) under IFRS 16, the adjustment to the opening balances for assets and for borrowings will be the same value calculated based on the remaining lease liability commitments at the date of first application (January 1, 2019) and hence there will be no adjustment to opening reserves. This approach takes the entity's obligations at the transition date, discounting them using the discount rate at initial application, and capitalising the remaining lease terms as though they were new leasing agreements, with the recognised assets amortised over the remaining lives of the leases;

– Based on the internal assessment, the Company does not believe that the initial application of IFRS 16 will have a material impact on the financial statements for the year ended December 31, 2019 and onward since the amortised cost of the right of use assets are not expected to be significantly different from that of the leased cost under IAS17.

There are no other standards that are not yet effective and that would be expected to have a significant impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. Significant Accounting Policies *(continued)*

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Trinidad and Tobago dollars which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Director and the local management team, who have been identified as the chief operating decision makers. This team is responsible for allocating resources and assessing performance of the operating segments and for making strategic decisions.

(d) Property, plant and equipment

Freehold land and buildings comprise mainly factory and offices and are shown at fair value based on valuations by external independent valuers, less subsequent depreciation for buildings. Independent valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 benefits 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 are charged to profit or loss during the financial period in which they are incurred.

2. Significant Accounting Policies *(continued)*

(d) Property, plant and equipment *(continued)*

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from revaluation reserve to retained earnings.

Depreciation is calculated to write off the cost/valuation of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated. The rates at which items of property, plant and equipment for current and comparative periods are depreciated are as follows:

- Freehold buildings at 2% and 6.72% per annum on valuation.
- Plant and machinery at 5% per annum on cost.
- Furniture and equipment at rates varying between 10% and 33% per annum on cost.
- Motor vehicles at 25% per annum on cost.

The assets' depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

At the beginning of 2018, the Company changed its accounting estimate with respect to the economic estimated useful life of all plant and machinery wherein it was increased from 14.3 years to 20 years, with a reduction in annual depreciation rate from 7% to 5% with effect from January 1, 2018.

This was based on the Company aligning its Finance Policy on Property, Plant & Equipment with respect to the depreciation and life span of all plant and machinery for the manufacture of tobacco products with the new standard established by the Group subsequent to its recently conducted global review of the estimated useful life of its Plant & Machinery.

For the financial year ended December 31, 2018, this increase in the estimate useful life brought about a reduction in depreciation expense of approximately $8.2M.

2. **Significant Accounting Policies** *(continued)*

(d) *Property, plant and equipment* *(continued)*

Future acquisition of assets that will be classified as Plant & Machinery will have a useful life of 20 years and the assets will be depreciated at an annual rate of 5%.

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 disposals are determined by comparing proceeds with the carrying amounts and are recognised other operating expenses.

When revalued assets are sold, the amounts included in revaluation surplus are transferred to retained earnings.

(e) Current and deferred income tax

The tax expense for the year comprises current and deferred income tax. The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income 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 principal temporary differences arise from depreciation on property, plant and equipment, revaluations on buildings and provision for pensions and other post-retirement benefits.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. **Significant Accounting Policies** *(continued)*

(e) ***Current and deferred income tax*** *(continued)*

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(f) ***Impairment of non-financial assets***

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 largely independent cash inflows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(g) ***Inventories***

Inventories are stated at the lower of cost or net realisable value, allowance having been made for slow moving and obsolete items. Cost is determined on the following bases:

- Raw materials are valued at weighted average cost
- Inventories in process are valued at weighted raw materials cost, labour and production
- Finished goods comprise raw materials plus a portion of labour and production overheads based on normal operating capacity
- Supplies and sundries are valued at weighted average cost
- Goods in transit are valued at suppliers' invoice cost plus freight and insurance as applicable.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. Significant Accounting Policies *(continued)*

(h) Financial assets

The Company classifies its financial assets as cash and cash equivalents and trade and other receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition when they are originated with value initially measured at the transaction price.

Cash and cash equivalents and trade and other 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 statement of financial position date. These are classified as non-current assets. The Company's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' and in the statement of financial position (Notes 2(i). and 2(j)).

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value under IFRS 9, depending on the classification of the financial asset. The category of financial assets disclosed under 'cash and cash equivalents' would not have had any change in its valuation as at 31 December, 2018 under IFRS 9, however the category 'trade and other receivables' would have been disclosed net of its expected credit loss as at that date.

Details about the Company's impairment policies and the calculation of the credit loss allowance are provided in Note 2 (a) (i) in the section for IFRS 9 above.

(i) Trade and other receivables

Trade and other receivables are carried at anticipated realisable value. The policy from January 1, 2018 is to recognise impairment under expected credit loss. The policy before January 1, 2018 was to record provision for specific doubtful receivables based on a review of all outstanding amounts at each year-end.

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand and other short-term highly liquid investments with original maturities of three months or less.

2. Significant Accounting Policies *(continued)*

(k) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Employee benefits

(i) Long-term employee benefits – Retirement benefit plans

The Company operates two retirement benefit plans, a defined benefit plan and a defined contribution plan.

A defined benefit plan is a pension plan that is not a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The plans are generally funded through employer and employee contributions to insurance companies or trustee-administered funds.

(a) Defined benefit plan

The Company operates a defined benefit plan for its eligible employees. This plan defines an amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The funds of the plan are administered by fund managers appointed by the trustees of the plan. The pension plan is generally funded by payments from employees and the Company, taking account of the recommendations of independent qualified actuaries.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan at least every three years (the last valuation was completed as at November 30, 2018). Roll forward valuations, which are less detailed than full valuations are performed annually.

2. **Significant Accounting Policies** *(continued)*

(l) Employee benefits *(continued)*

(i) Long-term employee benefits – Retirement benefit plans (continued)

(a) Defined benefit plan *(continued)*

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligations at the statement of financial position date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government securities.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

During 2011, the defined benefit plan was closed to new entrants.

(b) Defined contribution plan

The Plan covers all employees joining the Company as of September 2011 and comprises two deferred annuity schemes for each employee: an individual deferred annuity and a corporate deferred annuity. Employees as well as the Company will contribute to the plan for the specific purpose of providing income upon retirement. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due (Note 15(a)). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Under the terms of the plan, employees as well as the Company will contribute to a defined contribution plan for the specific purpose of providing income upon retirement.

2. Significant Accounting Policies *(continued)*

(l) Employee benefits (continued)

(ii) Post-employment medical benefit obligation

The Company provides post-employment medical benefits for retirees. The entitlement to this benefit is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The method of accounting used to recognise the liability is similar to that for the defined benefit plan. These obligations are valued annually by independent qualified actuaries. The main additional actuarial assumption is the long-term increase in health costs. The charge for the current year is recognised in profit or loss under employee benefit expense (Note 15(a)). Actuarial gains and losses arising are charged or credited to other comprehensive income in the period in which they arise.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntary separation in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to terminating employment of current employees according to a formal plan without the possibility of withdrawal.

(iv) Short-term obligations

(a) <u>Bonus plans</u>

The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans are expected to be settled within 12 months.

(b) <u>Vacation liability</u>

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of service rendered by employees up to the statement of financial position date.

2. Significant Accounting Policies *(continued)*

(m) 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 will be required to settle the obligation, and the amount has been estimated reliably. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(n) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if – payment is due within one year or less. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Revenue recognition

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated and is presented as previously reported, under IAS 18. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

2. Significant Accounting Policies *(continued)*

(o) *Revenue recognition* *(continued)*

Under IAS 18, the Company recognised revenue at the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities wherein total billings represented the net amounts invoiced, including excise duty, net of value added taxes and under IFRS 15, this approach has not had resulted in any significant change in the Company's timing of revenue recognition.

(i) Sale of goods

The Company manufactures and sells cigarettes. Sales of goods are recognised when the Company has satisfied the performance obligation of passing control of its finished tobacco products over to its customers, which coincides with when the products leave its compound. At this point, the control of goods passes to the customer, and either the customer has accepted the products in accordance with the sales contract or the Company has objective evidence that all criteria for acceptance have been satisfied.

(ii) Sale of services

Revenue from fixed-price contracts for consultancy services is generally recognised in the period the services are provided, using a straight-line basis over the term of the contract.

(iii) Interest income

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

(p) *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 profit or loss in the period in which they arise.

(q) *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 directors.

2. Significant Accounting Policies *(continued)*

(r) Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand dollars unless otherwise stated.

3. Financial Risk Management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. Risk management is carried out in line with policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as market risk, credit risk, and the investment of excess liquidity.

(a) Market risk

This comprises foreign exchange risk, cash flow and fair value interest rate risk and price risk.

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and British Pound (GBP). Foreign exchange risk arises when recognised financial assets or liabilities are denominated in a currency that is not the entity's functional currency.

If the Trinidad and Tobago (TT) dollar depreciates/appreciates by 5% against the US dollar, Euro and British Pound with all other variables held constant, profit for the year would have been impacted as follows:

	2018 $'000	2017 $'000
Increase (decrease) in profit before taxation		
Effect of a 5% depreciation of the TT dollar	(6,274)	(4,541)
Effect of a 5% appreciation of the TT dollar	6,274	4,541

3. Financial Risk Management *(continued)*

Financial risk factors *(continued)*

(a) Market risk *(continued)*

Foreign exchange risk (continued)

The Company prepared the sensitivity analysis above by applying the percentage rate to net foreign currency positions of financial instruments as of the end of the respective years. An analysis of financial instruments by currency is shown in Note 8(a).

Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets or liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The Company is not exposed to price risk as it has no financial interests or investments in equity securities or commodities.

(b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to customers. The Company has a significant concentration of credit risk however, the Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Credit exposures arise from sales to distributors and retail customers, including outstanding receivables.

The credit quality of customers, their financial position, past experience and other factors are taken into consideration in assessing credit risk and are regularly monitored through the use of credit terms. Management does not expect any losses from non-performance by counterparties.

Cash and deposits are held with a number of reputable financial institutions, with amounts varying between $286,000 and $271,600,000 (2017: $153,000 and $225,600,000). The maximum limit with any one financial institution is $271,280,000 (2017: $271,064,000). Balances in excess of this limit were held temporarily for periods of no more than one week.

3. Financial Risk Management *(continued)*

Financial risk factors *(continued)*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and short-term funds and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The table below analyses the Company's financial liabilities based on the remaining period at the financial position date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within one year equal their carrying balances as the impact of discounting is not significant.

	Less than one year $'000
At December 31, 2018	
Trade payables and accruals	69,266
Amounts due to related parties/parent company	10,905
At December 31, 2017	
Trade payables and accruals	50,486
Amounts due to related parties/parent company	13,178

Capital risk 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. In order to maintain or adjust the capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Fair value estimation

The carrying values of all financial instruments held as of the financial position date are assumed to approximate their fair values, as they are short term in nature.

4. Critical Accounting Estimates and Assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Pensions and post-employment medical benefits

The present value of the pension and medical obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations. In determining the appropriate discount rate, the Company considers the interest rates of long term Government securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability.

Other key assumptions for pensions and medical obligations are based in part on current market conditions. These are described in Note 12.

(b) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made. See Notes 6 and 16.

5. Property, Plant and Equipment

	Freehold Land and Buildings	Plant and Machinery	Furniture and Equipment	Motor Vehicles	Capital Work In Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Year ended December 31, 2018						
Opening net book amount	86,679	100,722	4,542	–	20,031	211,974
Additions	16	560	11	–	17,096	17,683
Transfers	607	2,370	509	–	(3,486)	–
Disposals	–	(16,484)	–	–	–	(16,484)
Depreciation charge (Note 15)	(1,838)	(6,957)	(1,279)	–	–	(10,074)
Depreciation on Disposal	–	15,048	–	–	–	15,048
Revaluation (Note 5a)	20,105	–	–	–	–	20,105
Closing net book amount	105,569	95,259	3,783	–	33,641	238,252
At December 31, 2018						
Cost/valuation	119,660	274,935	32,761	774	33,641	461,771
Accumulated depreciation	(14,091)	(179,676)	(28,978)	(774)	–	(223,519)
Net book amount	105,569	95,259	3,783	–	33,641	238,252

Capital work in progress consists of the costs to acquire plant and machinery for the upgrade of the tobacco stem line and the replacement of the factory roof. These projects are currently ongoing.

5. Property, Plant and Equipment *(continued)*

	Freehold Land and Buildings $'000	Plant and Machinery $'000	Furniture and Equipment $'000	Motor Vehicles $'000	Capital Work In Progress $'000	Total $'000
Year ended December 31, 2017						
Opening net book amount	87,698	91,366	5,750	–	18,602	203,416
Additions	40	957	314	–	26,729	28,040
Transfers	854	24,256	190	–	(25,300)	–
Disposals	(83)	(603)	(15)	–	–	(701)
Depreciation charge (Note 15)	(1,830)	(15,254)	(1,697)	–	–	(18,781)
Closing net book amount	86,679	100,722	4,542	–	20,031	211,974
At December 31, 2017						
Cost/valuation	98,932	273,441	32,241	774	20,031	425,419
Accumulated depreciation	(12,253)	(172,719)	(27,699)	(774)	–	(213,445)
Net book amount	86,679	100,722	4,542	–	20,031	211,974

(a) Revaluation surplus

	2018 $'000	2017 $'000
At beginning of the year	47,495	48,194
Depreciation transfer on buildings - net of tax	(699)	(699)
Gain on revaluation – net of tax	14,990	–
At end of the year	61,786	47,495

The Company's freehold land and buildings were last revalued on November 30, 2018 by Raymond & Pierre, Chartered Valuation Surveyors. The valuation surveyors used the Direct Capital Comparison Method and the Depreciated Replacement Cost Method to determine the values of land and buildings respectively.

This basis of valuation was used due to the specialised nature of the properties, derived from the exigencies of the operations. The surplus thus arising was credited to revaluation surplus in shareholders' equity.

5. Property, Plant and Equipment *(continued)*

(a) Revaluation surplus

The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value measurements as at December 31, 2018 using:

	Quoted prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$'000	$'000	$'000
Recurring fair value measurements			
Land	–	–	33,405
Buildings	–	–	72,164

	Fair Value Hierarchy	Fair value as at January 1 2018	Additions/ Transfers/ Disposals	Depreciation/ Impairment	Revaluation Gain	Fair Value Carried Forward
		$	$	$	$	$
Land	Level 3	30,350	–	–	3,055	33,405
Buildings	Level 3	56,329	623	(1,838)	17,050	72,164
		86,679	623	(1,838)	20,105	105,569

5. Property, Plant and Equipment *(continued)*

(a) Revaluation surplus *(continued)*

Fair value measurements as at 31 December 2017 using:

	Quoted prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	$'000	**$'000**	**$'000**
Recurring fair value measurements			
Land	–	–	30,350
Buildings	–	–	56,329

	Fair Value Hierarchy	Fair value as at January 1 2018	Additions/ Transfers/ Disposals	Depreciation/ Impairment	Revaluation Gain	Fair Value Carried Forward
		$	**$**	**$**	**$**	**$**
Land	Level 3	30,350	–	–	–	30,350
Buildings	Level 3	57,348	811	(1,830)	–	56,329
		87,698	811	(1,830)	–	86,679

There were no transfers between levels 1 and 2 during the year.

Transfers between levels 2 and 3
The Company's management annually reviews the latest valuations performed by the independent valuator for financial reporting purposes.

At each financial year end, the finance department:
- verifies all major inputs to the independent valuation report;
- assesses property valuation movements when compared to the most recent valuation report;
- holds discussions with the independent valuator.

5. Property, Plant and Equipment *(continued)*

(a) Revaluation surplus *(continued)*

Transfers between levels 2 and 3 (continued)

The Company's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. Changes in Level 2 and 3 fair values are analysed at each reporting date. As part of this assessment, the team reviews the reasons for the fair value movements.

The main level 3 inputs used by the Company are derived and evaluated as follows:

Land:

The direct comparable method was used. In using this method, evidence of arm's length open market transactions of similar lands are analysed and the results applied to the subject lands after taking into consideration appropriate adjustments for location, size and other relevant factors.

Buildings:

Buildings are valued using the depreciated replacement cost method. Under this method the gross replacement cost of the buildings and other sites works are then estimated from which appropriate deductions are then made to allow for the age, condition and obsolescence (economic and functional) of the buildings in site works. The total net replacement cost is then added to the estimated value of the land.

Inputs considered in the valuation:

(i) Location and neighbourhood – The property easily lends itself to a wide pool of skilled and unskilled labour and facilitates easy access to main highways. The general neighbourhood is characterised by light industrial users.

(ii) Measurements and condition – The square footage of the site is taken into consideration in the valuation. Based on the valuation the buildings also appeared to be structurally sound and in fair to good decorative condition.

The inputs above have not varied significantly in the past, and as such the impact of movements in the variables are not considered significant.

5. Property, Plant and Equipment *(continued)*

(b) ***If the freehold land and buildings were stated on the historical cost basis the amounts would be as follows:***

	2018 $'000	2017 $'000
Cost	32,745	32,123
Accumulated depreciation	(12,290)	(11,450)
Net book amount	20,455	20,673

(c) ***Depreciation expense is included in statement of profit or loss and other comprehensive income as follows:***

	2018 $'000	2017 $'000
Amount included in cost of sales	8,319	16,832
Amount included in other operating expenses	1,755	1,949
	10,074	18,781

6. Deferred Income Tax

Deferred income taxes are calculated in full on temporary differences under the liability method using the statutory tax rate of 30%.

	2018 $'000	2017 $'000
Deferred income tax asset		
– Retirement benefit obligation (Note 6(a))	18,397	19,540
– Post-retirement medical obligation	957	1,131
Deferred income tax asset	19,354	20,671
Deferred income tax liability		
– Revaluation on buildings	11,717	6,901
– Accelerated tax depreciation	25,748	26,740
Deferred income tax liability	37,465	33,641
Net deferred income tax liability	18,111	12,970

6. Deferred Income Tax *(continued)*

(a) The deferred income tax asset on retirement benefit obligation is attributable to the following:

	2018 $'000	2017 $'000
Retirement benefit obligation, excluding deferred lumpsum contribution	15,889	16,151
Deferred lumpsum contribution	2,508	3,389
	18,397	19,540

(b) The movement in the net deferred income tax position in the statement of financial position is attributable to the following:

	Revaluation on Buildings $'000	Accelerated Tax Depreciation $'000	Retirement Benefit $'000	Post-Retirement Medical $'000	Total $'000
As at 31 December 2018					
Balance at beginning of year	6,901	26,740	(19,540)	(1,131)	12,970
(Credit) charge to profit or loss (Note 16)	(299)	(992)	167	109	(1,015)
Tax on revaluation of buildings in OCI	5,115	–	–	–	5,115
Tax on actuarial gains recognised in OCI	–	–	976	65	1,041
Balance at end of year	11,717	25,748	(18,397)	(957)	18,111

	Revaluation on Buildings $'000	Accelerated Tax Depreciation $'000	Retirement Benefit $'000	Post-Retirement Medical $'000	Total $'000
As at 31 December 2017					
Balance at beginning of year	7,200	23,365	(23,930)	(1,371)	5,264
(Credit) charge to profit or loss (Note 16)	(299)	3,375	(105)	73	3,044
Tax on actuarial gains recognised in OCI	–	–	4,495	167	4,662
Balance at end of year	6,901	26,740	(19,540)	(1,131)	12,970

7. Inventories

	2018 $'000	2017 $'000
Raw materials	13,781	20,792
Goods in transit	14,857	8,859
Supplies and sundries	2,274	2,826
Finished goods	15,177	11,508
Inventories in process	2,618	766
	48,707	44,751

The cost of inventories recognised as expense and included in "cost of sales" amounted to $135,130,354 (2017: $117,954,389).

A provision was made against supplies and sundries in the amount of $9,321,898 (2017: $9,063,170) relating to spares.

8. Financial Instruments

a) *Financial instruments by category and currency*

	TTD $'000	USD $'000	Euro $'000	GBP $'000	Total $'000
As at December 31, 2018					
Financial assets					
Trade receivables	52,490	–	–	–	52,490
Due from related parties	8,537	6,903	–	–	15,440
Cash and cash equivalents	146,268	138,602	–	–	284,870
	207,295	145,505	–	–	352,800
Financial liabilities					
Trade payables and accruals	53,210	1,178	9,394	5,484	69,266
Due to related parties	3,194	765	999	2,193	7,151
Due to parent company	3,753	–	–	–	3,753
	60,157	1,943	10,393	7,677	80,170

8. Financial Instruments (continued)

(a) Financial instruments by category and currency (continued)

	TTD $'000	USD $'000	Euro $'000	GBP $'000	Total $'000
As at December 31, 2017					
Financial assets					
Trade receivables	59,896	–	–	–	59,896
Due from related parties	2,096	9,253	–	1,434	12,783
Cash and cash equivalents	129,346	105,309	–	–	234,655
	191,338	114,562	–	1,434	307,334
Financial liabilities					
Trade payables and accruals	34,430	1,178	9,394	5,484	50,486
Due to related parties	3,291	5,032	335	1,902	10,560
Due to parent company	2,618	–	–	–	2,618
	40,339	6,210	9,729	7,386	63,664

(b) Maximum exposure to credit risk

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets mentioned below:

	Neither past Due Nor Impaired $'000	Past Due But Not Impaired (> 30 days) $'000	Total $'000
As at December 31, 2018			
Trade receivables	52,490	–	52,490
Due from related parties	15,440	–	15,440
Cash at bank	284,871	–	284,871
	352,801	–	352,801
As at December 31, 2017			
Trade receivables	59,896	–	59,896
Due from related parties	12,783	–	12,783
Cash at bank	234,655	–	234,655
	307,334	–	307,334

The Company does not hold any collateral as security.

8. Financial Instruments *(continued)*

(c) *Credit quality of financial assets*

Financial assets neither past due nor impaired are held with counterparties without an external credit rating. The credit quality of these can be assessed as follows:

- Trade receivables and due from related parties relate to existing customers (more than 6 months old) with minimal defaults in the past;
- Cash and cash equivalents are held with reputable financial institutions.

9. Trade and Other Receivables

	2018 $'000	2017 $'000
Trade receivables	52,490	59,896
Prepayments	6,539	12,440
Receivables from related parties: (Note 19)		
– trade	6,903	9,726
– other	8,537	3,057
	74,469	85,119

10. Cash and Cash Equivalents

	2018 $'000	2017 $'000
Cash at bank	272,460	226,659
Cash in hand and in transit	12,410	7,996
	284,870	234,655

11. Share Capital

Authorised
An unlimited number of ordinary shares of no par value

Issued and fully paid

	2018 $'000	2017 $'000
84,240,000 ordinary shares of no par value	42,120	42,120

12. Pensions and Other Post-Retirement Obligations

	2018 $'000	2017 $'000
Statement of Financial Position:		
Retirement benefit obligation	(52,963)	(53,834)
Post-employment medical benefit obligation	(3,192)	(3,771)
Liability in the statement of financial position	(56,155)	(57,605)

(i) Retirement benefits

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

	2018 $'000	2017 $'000
Fair value of plan assets	203,492	203,382
Present value of funded pension obligation	(255,957)	(256,820)
Deficit of funded plans	(52,465)	(53,438)
Present value of unfunded pension obligation	(498)	(396)
Liability in the statement of financial position	(52,963)	(53,834)
Net interest cost	2,804	4,061
Current service cost	3,469	4,030
Net pension expense	6,273	8,091
Remeasurements:		
From plan assets	(4,938)	(82)
From obligation – funded	8,362	15,063
From obligation – unfunded	(171)	2
Remeasurement of net asset	3,253	14,983
Reconciliation of movements in the statement of financial position:		
Net liability recognised as at January 1	(53,834)	(65,530)
Net pension expense	(6,273)	(8,091)
Remeasurement of net asset	3,253	14,983
Employer contributions	3,891	4,804
Net liability recognised as at December 31	(52,963)	(53,834)

12. Pensions and Other Post-Retirement Obligations *(continued)*

Statement of Financial Position *(continued)*:

(i) Retirement benefits

	2018 $'000	2017 $'000
Changes in fair value of plan assets:		
Fair value of plan assets as at January 1	203,382	197,525
Actual return on plan assets:		
– interest income	10,044	9,188
– remeasurement recognised in OCI	(4,938)	(82)
Company contributions	3,891	4,804
Employee contributions	1,408	934
Benefit payments	(10,295)	(8,987)
Fair value of plan assets as at December 31	203,492	203,382
Changes in present value of the obligation (funded and unfunded):		
Present value of obligation as at 1 January	(257,216)	(263,055)
Interest cost	(12,848)	(13,249)
Current service cost – employer	(3,469)	(4,030)
Current service cost – employee	(1,408)	(934)
Benefit payments	10,295	8,987
Remeasurement recognised in OCI:		
– experience	8,191	15,065
Present value of obligation as at December 31	(256,455)	(257,216)

The principal actuarial assumptions were as follows:

	Per Annum 2018 %	Per Annum 2017 %
Discount rate	5.00	5.00
Future salary increases	5.00	5.00
Future pension increases	3.00	3.00
Mortality	NISTT2012	NISTT2012

12. Pensions and Other Post-Retirement Obligations *(continued)*

(i) Retirement benefits *(continued)*

Expected contributions to post employment benefit plans for the year ending December 31, 2019 are $4,136,062.

Plan assets comprise the following:

		2018 $'000	2018 %		2017 $'000	2017 %
Equity investments						
Local	47,959			52,845		
Foreign	42,760	90,719	45	39,291	92,136	45
Debt instruments						
Local	57,381			63,065		
Foreign	28,054	85,435	42	27,781	90,846	45
Property						
Local		5,074	2		5,261	3
Other						
Local		22,264	11		15,139	7
		203,492	100		203,382	100

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

(ii) Post-employment medical benefit obligation

The amount recognised in the statement of financial position is as follows:

	2018 $'000	2017 $'000
Unfunded post-retirement health care obligation	3,192	3,771

The movement in the defined benefit obligation over the year is as follows:

	2018 $'000	2017 $'000
Interest cost	176	273
Current service cost	19	35
Post-retirement health care expense	195	308

12. Pensions and Other Post-Retirement Obligations *(continued)*

(ii) Post-employment medical benefit obligation *(continued)*

Remeasurements recognised in other comprehensive income:

	2018 $'000	2017 $'000
From obligations	216	558

Reconciliation of movements in statement of financial position:

	2018 $'000	2017 $'000
Net liability recognised as at January 1	(3,771)	(4,571)
Net expense	(195)	(308)
Remeasurement of net liability	216	558
Employer premiums for existing retirees/clinic cost	558	550
Net liability recognised as at December 31	(3,192)	(3,771)

Changes in present value of the obligation:

	2018 $'000	2017 $'000
Present value of obligation as at 1 January	(3,771)	(4,571)
Interest cost	(176)	(273)
Current service cost	(19)	(35)
Employer premiums for existing retirees/clinic cost	558	550
Remeasurement recognised in OCI:		
– experience	216	558
Present value of obligation as at December 31	(3,192)	(3,771)

The principal actuarial assumptions were as follows:

	2018 %	2017 %
Discount rate	5.00	5.00
Premium/clinic cost escalation	3.50	3.50
% married	90	90
Retiree mortality table	NISTT2012	GAM94

Expected contributions to post-employment medical benefit plans for the year ending December 31, 2019 are $473,000.

There was a change in the retiree mortality table in 2018. The NISTT2012 mortality table is based on the observed mortality experience of Trinidad and Tobago NIS pensioners.

12. Pensions and Other Post-Retirement Obligations *(continued)*

(ii) Post-employment medical benefit obligation *(continued)*

The effect of a 1% movement in the assumed medical cost trend rate is as follows:

	Increase $'000	Decrease $'000
Effect on the aggregate of the current service cost and interest cost	5	(5)
Effect on the defined benefit obligation	510	(402)

(iii) Defined benefit pension plan

The Company operates a defined benefit pension plan regulated by the Insurance Act 1980 of Trinidad and Tobago. This is a final salary pension plan which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on members' length of service and their salary in the final years leading up to retirement. The pension payments are increased by 3% each year. The majority of benefit payments are from trustee administered funds; however, a small number of pension payments are met by the Company. Plan assets held in trust are governed by local regulations and practice. Responsibility for governance of the plan, including investment decisions lies jointly with the Company and the Board of Trustees. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the plan's regulations.

The weighted average duration of the defined benefit obligation is 17.1 years.

The weighted average duration of the post-employment medical benefit obligation is 17.2 years.

In the case of the funded plan, the Company ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension schemes. Within this framework, the Company's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency.

The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Company has not changed the processes used to manage its risks from previous periods. The Company does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

12. Pensions and Other Post-Retirement Obligations *(continued)*

(iii) Defined benefit pension plan (continued)

The Company has taken measures to reduce the pension plan deficit and to date there has been lumpsum injections totalling $31.4M during the period 2008 to 2012. Based on the recommendation of the actuary, the Company continues its higher contributions, and with additional planned measures, anticipates the elimination of the deficit.

(iv) Sensitivity of assumptions

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

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate:	0.50%	Decrease by 7.2%	Increase by 8.1%
Salary growth rate:	0.50%	Increase by 2.3%	Decrease by 2.1%
Pension growth rate:	0.25%	Increase by 2.5%	Decrease by 2.4%

As at December 31, 2018, if the discount rate had been 0.5% higher or lower with all other variables held constant, the carrying amount of pension obligations would have been $18,414,000 lower or $20,868,000 higher (2017: $18,802,000 lower or $21,444,000 higher).

	Increase by 1 Year in Assumption	**Decrease by 1 Year in Assumption**
Life expectancy:	Increase by 3.3%	Decrease by 3.4%

The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The above sensitivity analyses are 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 as when calculating the pension liability recognised within the statement of financial position.

12. Pensions and Other Post-Retirement Obligations *(continued)*

(v) The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

The defined benefit pension plan and post-employment medical plan are exposed to a number of risks, the most significant of which are detailed below:

Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government bond yields (Trinidad and Tobago does not have a deep or liquid market in Government or corporate debt); if plan assets underperform this yield, this will create a deficit. The plan holds a portion of assets in equities (approximately 45% of plan assets), which are expected to outperform Government bonds in the long term while providing volatility and risk in the short term.

Changes in bond yields

A decrease in Government bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plan's bond holdings.

Inflation risk

Some of the Company's pension obligations are loosely linked to inflation to the extent that inflation influences salary increases, and higher inflation leads to higher salaries which in turn will lead to higher liabilities. The majority of the plan's assets are either unaffected by (fixed interest bonds) or loosely correlated with (equities) inflation, meaning that an increase in inflation can also increase the deficit.

13. Trade and Other Payables

	2018 $'000	2017 $'000
Trade payables and accruals	69,266	50,486
Statutory liabilities	31,575	34,277
Due to related parties (Note 19)		
– trade	4,267	6,982
– other	2,885	3,578
	107,993	95,323

14. Revenue

	2018 $'000	2017 $'000
Billings excluding VAT – including excise	1,153,059	1,085,723
Less excise	(233,415)	(218,074)
Revenue	919,644	867,649

The Company collects excise duty on behalf of the Comptroller of Customs and remits this excise duty to the Comptroller of Customs when a sale is made to a domestic distributor.

15. Expenses by Nature

	2018 $'000	2017 $'000
Raw materials and consumables used	135,130	117,954
Technical and advisory services	40,891	33,724
Employee benefit expense (Note 15(a))	64,493	57,911
Other expenses	39,851	42,750
Royalties	33,233	32,126
Depreciation (Note 5)	10,074	18,781
Brand support expenses	7,747	12,870
Travel and related expenses	2,585	2,142
Corporate social investments	692	750
Changes in inventories of finished goods and work in progress	(6,730)	657
Inventory Writeoff	8,620	360
Impairment on Trade receivable	26	–
Directors remuneration	395	376
Net foreign exchange gains	(2,473)	(1,229)
Total cost of sales, distribution costs, administrative expenses and other operating expenses	334,534	319,172

(a) ***Employee benefit expense***

	2018 $'000	2017 $'000
Wages and salaries and other termination benefits	41,306	40,471
Other benefits	15,869	8,191
Pension costs:		
– defined benefit plan (Note 12)	6,273	8,091
– defined contribution plan	850	850
Post-employment medical benefits (Note 12)	195	308
	64,493	57,911

Number of employees as at year end 185 (2017: 182).

16. Taxation

	2018 $'000	2017 $'000
Corporation tax:		
– current year	183,137	167,014
– adjustment to prior year's estimates	92	(604)
Deferred income tax (Note 6)	(1,015)	3,044
	182,214	169,454

The tax on the Company's profit before tax differs from that calculated at the statutory tax rate applicable to profits of the Company as follows:

	2018 $'000	2017 $'000
Profit before taxation	587,310	549,672
Tax calculated at 30% / 25%	176,193	164,850
Expenses not deductible for tax	5,935	5,219
Income/allowances not subject to tax	(6)	(11)
Corporation tax – adjustment to prior year's estimates	92	(604)
	182,214	169,454

17. Earnings per Share

Basic earnings per ordinary share are calculated by dividing the profit for the year attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	2018	2017
Profit for the year attributable to equity holders ($'000)	405,096	380,218
Number of ordinary shares in issue ('000)	84,240	84,240
Basic earnings per share	$4.81	$4.51

18. Dividends Paid on Ordinary Shares

	2018 $'000	2017 $'000
Final dividend – prior year	122,990	183,643
First interim dividend	69,077	64,022
Second interim dividend	96,034	88,452
Third interim dividend	98,561	96,034
	386,662	432,151

A final dividend in respect of 2018 of $1.47 cents per share (2017: $1.46 cents per share) amounting to $123,832,800 (2017: $122,990,400) is to be proposed at the Annual General Meeting to be held on April 5, 2019. If approved, the total dividend for the year will be $4.60, 4.3% higher than the dividend distribution of $4.41 with respect to 2017.

The Company's Bye-Laws allow for the forfeiture of dividends unclaimed after a period of twelve (12) years. The Company undertook to conduct due diligence to ensure that any shareholder who is entitled to dividend payments receive same prior to its forfeiture. Unclaimed dividends of $2.5M for periods 2002, 2003 and 2004 were written back to the retained earnings in equity in 2014 and 2016. The next review is scheduled to take place in 2019.

19. Related Party Transactions and Balances

The Company is a subsidiary of British American Tobacco (Investments) Limited which owns 50.13% of the issued share capital. The remaining 49.87% of the shares are widely held. Its ultimate parent company is British American Tobacco p.l.c., a company registered in the United Kingdom.

The following transactions were carried out with related parties:

	2018 $'000	2017 $'000
(a) Sale of goods and services		
Sale of goods – related parties	102,617	95,299
(b) Purchases of goods and services		
Purchases of goods – related parties	47,662	49,406
Purchases of services – related parties	66,519	55,957
Purchases of services – parent company	32,576	25,938

19. Related Party Transactions and Balances *(continued)*

(b) *Purchases of goods and services* *(continued)*

The prices agreed between related parties for sale of manufactured goods are based on normal commercial practices between independent businesses. Charges for royalties, commissions, purchases, services and fees are also based on the principles of normal commercial practice between independent businesses.

(c) *Key management compensation*

	2018 $'000	2017 $'000
Salaries and other short-term employee benefits	6,112	5,551
Post-retirement medical obligations	3	3
Post-retirement benefits	806	752
(d) *Receivable from related parties* (Note 9)	15,440	12,783
Payable to related parties (Note 13)	7,152	10,560
Payable to parent company	3,753	2,618

The receivables from related parties arise mainly from sales transactions and are due 30 days after the end of the month in which the invoice is dated. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2017: NIL).

The payables to related parties arise mainly from purchase transactions and are due 30 days after the end of the month in which the invoice is dated. The payables bear no interest.

20. Contingent Liabilities

	2018 $'000	2017 $'000
Customs and immigration bonds	16,400	16,900

21. Commitments

	2018 $'000	2017 $'000
(a) Capital commitments		
Authorised and contracted for, and not provided for in the financial statements.	3,446	9,558

(b) Operating lease commitments

The Company leases motor vehicles under non-cancellable operating lease agreements. The lease terms are between one to five years.

The future minimum lease payments under operating lease agreements are as follows:

	2018 $'000	2017 $'000
No later than one year	2,180	2,002
Later than one year and no later than five years	3,000	3,474
	5,180	5,476

Operating lease expenses incurred in 2018 amounted to $2,177,425 (2017: $2,217,166).

22. Segment Information

The Company is organised and managed on the basis of two geographic regions, namely the domestic market and the Caricom market. These are the reportable segments for the Company as they form the focus of the Company's internal reporting systems and are the basis used by the Managing Director and the local management team, as the chief operating decision makers, for assessing performance and allocating resources.

The Company is a single product business providing cigarettes. While the Company has clearly differentiated brands, segmentation among a wide portfolio of brands is not part of the regular internally reported financial information.

Primary reporting format – geographical segment

With the exception of the domestic market, no other individual country within the Caricom market contributes more than 10% of total revenue. Information is analysed by segment only where relevant and applicable. Where there is no logical allocation basis, items have been disclosed as unallocated.

22. Segment Information *(continued)*

The segment results for the year are as follows:

	Domestic TT$'000	CARICOM TT$'000	Unallocated TT$'000	Total TT$'000
Year ended 31 December 2018				
Revenue	817,027	102,617	–	919,644
Gross profit	696,765	14,251	–	711,016
Profit or loss for the year includes:				
Depreciation	–	–	(10,074)	(10,074)
Year ended 31 December 2017				
Revenue	772,350	95,299	–	867,649
Gross profit	655,867	6,654	–	662,521
Profit or loss for the year includes:				
Depreciation	–	–	(18,781)	(18,781)
Total Segment Assets				
December 31, 2018	90,458	32,718	549,665	672,841
December 31, 2017	95,978	33,892	474,489	604,359

Total segment assets include additions to property, plant and equipment as follows:

	Domestic TT$'000	CARICOM TT$'000	Unallocated TT$'000	Total TT$'000
December 31, 2018	–	–	17,683	17,683
December 31, 2017	–	–	28,040	28,040

23. Subsequent Events

There are no subsequent events occurring after the statement of financial position date and before the date of approval of these financial statements by the Board of Directors that require adjustment to or disclosure in these financial statements.