FINANCIAL STATEMENTS | 2020

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management is responsible for the following:

- Preparing and fairly presenting the accompanying financial statements of The West Indian Tobacco Company Limited ("the Company"), which comprise the statement of financial position as at December 31, 2020, 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;
- Ensuring that the Company keeps proper accounting records;
- Selecting appropriate accounting policies and applying them in a consistent manner;
- Implementing, monitoring and evaluating the system of internal control that assures security of the Company's assets, detection/prevention of fraud, and the achievement of the Company's operational efficiencies;
- Ensuring that the system of internal control operated effectively during the reporting period;
- Producing reliable financial reporting that comply with laws and regulations, including the Companies Act; and
- Using reasonable and prudent judgement in the determination of estimates.

In preparing these financial statements, management utilised the International Financial Reporting Standards, as issued by the International Accounting Standards Board and adopted by the Institute of Chartered Accountants of Trinidad and Tobago. Where International Financial Reporting Standards presented alternative accounting treatments, management chose those considered most appropriate in the circumstances.

Nothing has come to the attention of management to indicate that the Company will not remain a going concern for the next twelve months from the reporting date, or up to the date the accompanying financial statements have been authorised for issue, if later.

Management affirms that it has carried out its responsibilities as outlined above.

Laurent Meffre	Isha Reuben-Theodore
Managing Director	Finance Manager/Director
March 15, 2021	March 15, 2021

INDEPENDENT AUDITORS' REPORT

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, 2020, 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 December 31, 2020, and of its financial performance and its 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 International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

A) Key audit matter – Measurement of retirement benefit obligation

The Company operates a defined benefit pension plan scheme. The estimation of the retirement benefit obligation is based on significant assumptions and judgements that are disclosed in Note 12 to the financial statements, small changes in these assumptions can have a material impact on the valuation of the retirement benefit obligation.

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters *(continued)*

A) Key audit matter – Measurement of retirement benefit obligation *(continued)*

The use of significant assumptions and judgments increases the risk that the estimate of the retirement benefit obligation can be materially misstated and required special audit consideration.

How our audit addressed the key audit matter

Our audit procedures included:

- Testing the design and operating effectiveness of the Company's controls applicable to the development of the estimate of the retirement benefit obligation.
- Engaging our own actuarial specialists, to assess the methods, assumptions and judgments used to develop the estimate of the pensions and post-employment benefit obligation by:
  - Applying industry knowledge and experience to compare the methodology used against industry standard actuarial practice;
  - Assessing the appropriateness of the methodology adopted by reference to the requirements of the relevant accounting standards;
  - Challenging the mortality and discount rate assumptions utilised by comparing these to the actual mortality experience of the plan and relevant industry data; and
  - Evaluating the analysis of the movements in the retirement benefit obligation during the year, including consideration of whether the movements were in line with our expectations based on our knowledge of the Company and the industry in which it operates
- Assessing the reasonableness of the data used in the estimate by selecting a sample of the underlying data and agreeing the items back to the underlying source records.
- Reading the Company's accounting policies and disclosures and compared these with the requirements of the relevant accounting standards.

B) Key audit matter – Fair valuation of plan assets

Within the defined benefit pension plan are several bond valuations that are unquoted whereby there are no observable data to value these assets. For these positions, a reliable third-party price was not readily available and the fair value of these was determined using significant unobservable inputs as disclosed in Note 12 of the financial statements.

The valuation of the bonds using significant unobservable inputs requires judgement in determining the appropriate valuation methodology, data and assumptions where external pricing sources are not readily available. The effect of these matters has a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.

How our audit addressed the key audit matter

Our audit procedures included:

- Testing the design and operating effectiveness of the Company's controls to determine the fair value of the unquoted bonds.
- Engaging our own valuation specialist to challenge the Company's methods and assumptions by:

Report on the Audit of the Financial Statements *(continued)*

Key Audit Matters *(continued)*

B) Key audit matter – Fair valuation of plan assets (continued)

- Applying on our industry experience and external data sources to compare these with the methods and assumptions used by the Company;
- Independently pricing a sample of bonds and comparing the esults of our independent pricing to the fair value estimate developed by the Company; and
- Assessing the appropriateness of the methods and assumptions used to develop the fair value estimate by reference to the requirements of the accounting standards

• Reading the Company's accounting policies and disclosures and compared these with the requirements of the relevant accounting standards.

C) Key audit matter – Revenue Recognition

Revenue is recognised when the control of products have been transferred to the customer. Indicators that the Company typically considers in determining transfer of control include legal title, physical possession and significant risks and rewards of ownership. Revenue is a key performance measure for the Company and a key driver of gross margin and profitability.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators for the Company and therefore there is an inherent risk of manipulation of the timing and recognition of revenue by management to meet performance expectations.

How our audit addressed the key audit matter

Our audit procedures included:

- Assessing the design, implementation and operating effectiveness of key internal controls over the recognition of revenue;
- Involving our internal IT specialists to assist us in assessing the operating effectiveness of those IT controls which we considered to be critical to the recognition of revenue;
- Inspecting a sample of sales contracts with both domestic and foreign customers to understand the terms of the sales transactions in order to assess the Company's revenue recognition criteria with reference to the requirements of the relevant accounting standards;
- Inspecting a sample of journal entries affecting revenue raised during the financial year, which met certain risk-based criteria, enquiring of management the reasons for such entries and comparing the details of the entries with relevant underlying documentation; and
- Selecting a sample of sales transactions around the financial year end and assessing the timing of revenue recognition by comparing details of the sales with underlying documentation which included goods delivery notes and/ or shipping documents.

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 2020 Annual Report is expected to be made available to us after the date of this auditors report.

Report on the Audit of the Financial Statements *(continued)*

Other Information *(continued)*

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.

When we read the 2020 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance. 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 Company's financial statements in accordance with IFRS 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 judgment and maintain professional skepticism 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.

Report on the Audit of the Financial Statements *(continued)*

- 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.

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, actions taken to eliminate threats or safeguards applied.

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 in charge of the audit resulting in this independent auditors' report is Dushyant Sookram.

KPMG

Chartered Accountants
Port of Spain
Trinidad and Tobago
March 15, 2021

Statement of Financial Position

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

	Notes	2020 $'000	2019 $'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	249,763	248,485
Deferred income tax asset	6	8,488	13,294
		258,251	261,779
Current assets			
Inventories	7	46,916	36,627
Trade and other receivables	9	50,818	79,893
Taxation recoverable		4,917	5,071
Cash and cash equivalents	10	447,921	300,018
		550,572	421,609
Total assets		808,823	683,388
EQUITY			
Share capital	11	42,120	42,120
Revaluation surplus	5(a)	59,886	60,836
Retained earnings		475,456	348,298
Total equity		577,462	451,254
LIABILITIES			
Non-current liabilities			
Deferred income tax liability	6	39,568	40,281
Retirement benefit obligation	12	18,902	37,161
Post-employment medical benefit obligation	12	5,232	3,652
Lease liabilities	22	858	2,953
		64,560	84,047
Current liabilities			
Trade and other payables	13	117,406	99,348
Due to parent company	19(d)	7,348	7,345
Dividends payable		40,648	38,816
Taxation payable		778	1,953
Lease liabilities	22	621	625
		166,801	148,087
Total liabilities		231,361	232,134
Total equity and liabilities		808,823	683,388

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

These financial statements were approved by the Board of Directors on March 15, 2021, and signed on their behalf by:

Chairman   Managing Director

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

	Notes	2020 $'000	2019 $'000
Revenue	14	899,917	935,365
Cost of sales	15	(211,020)	(206,990)
Gross profit		688,897	728,375
Expenses			
Distribution costs	15	(10,905)	(14,354)
Administrative expenses	15	(75,537)	(83,072)
Other operating expenses	15	(15,241)	(25,627)
Operating profit		587,214	605,322
Finance income		1,210	2,961
Finance cost	22	(348)	(521)
Net finance income		862	2,440
Profit before taxation		588,076	607,762
Income tax expense	16	(178,055)	(189,526)
Profit for the year		410,021	418,236
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Re-measurement of retirement and post-employment benefit obligations	12	13,646	12,196
Related tax	6	(4,094)	(3,659)
Other comprehensive income – net of tax		9,552	8,537
Total comprehensive income for the year		419,573	426,773
Basic and diluted earnings per ordinary share	17/25	1.62	1.65

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

Statement of Changes in Equity

For the year ended December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

	Notes	Share Capital $'000	Revaluation Surplus $'000	Retained Earnings $'000	Shareholders' Equity $'000
Year ended 31 December 2020					
Balance at January 1, 2020		42,120	60,836	348,298	451,254
Comprehensive income					
Profit for the year		–	–	410,021	410,021
Other comprehensive income					
Re-measurement of retirement and post-employment benefit obligations – net of tax		–	–	9,552	9,552
Depreciation transfer on buildings – net of tax	5(a)	–	(950)	950	–
Transactions with owners					
Dividends	18	–	–	(293,365)	(293,365)
Balance at December 31, 2020		42,120	59,886	475,456	577,462
Year ended 31 December 2019					
Balance at January 1, 2019		42,120	61,786	309,771	413,677
Comprehensive income					
Profit for the year		–	–	418,236	418,236
Other comprehensive income					
Re-measurement of retirement and post employment benefit obligations – net of tax		–	–	8,537	8,537
Depreciation transfer on buildings – net of tax		–	(950)	950	–
Transactions with owners					
Dividends	18	–	–	(390,873)	(390,873)
Write back of unclaimed dividends	18	–		1,677	1,677
Balance at December 31, 2019		42,120	60,836	348,298	451,254

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

Statement of Cash Flows

For the year ended December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

	Notes	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		588,076	607,762
Adjustments for:			
Depreciation	5	11,751	11,385
Loss on disposal of property, plant and equipment		223	353
Net decrease in retirement and other post employment benefit obligations excluding actuarial losses		(3,033)	(2,517)
Interest income		(1,210)	(2,961)
Interest expense	22(iii)	348	521
Operating profit before working capital changes		596,155	614,543
Changes in working capital:			
(Increase)/Decrease in inventories		(10,289)	12,080
Decrease/(increase) in trade and other receivables		29,075	(5,424)
Increase/(decrease) in trade and other payables		18,058	(8,645)
Increase in due to parent company		3	3,592
Cash generated from operating activities		633,002	616,146
Tax refund received	22(iv)	–	1,905
Interest paid		(348)	(521)
Taxation paid		(179,076)	(195,879)
Net cash from operating activities		453,578	421,651
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(13,252)	(16,340)
Interest received		1,210	2,961
Net cash used in investing activities		(12,042)	(13,379)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends paid		(291,534)	(391,071)
Lease payment	22(iv)	(2,099)	(2,053)
Net cash used in financing activities		(293,633)	(393,124)
Net increase in cash and cash equivalents		147,903	15,148
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		300,018	284,870
CASH AND CASH EQUIVALENTS AT END OF YEAR	10	447,921	300,018
Represented by:			
Cash at bank and in hand		447,921	300,018

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

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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).

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to meet the mandatory repayment terms of its current liabilities. The Company has recognised profits of $410,021,000 after tax for the year ended December 31, 2020, and as at that date, current assets exceed current liabilities by $383,771,000.

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.

Changes in significant accounting policies

The Company has not had any changes in significant accounting policies for the twelve months ended December 31,2020. A number of new standards are effective from January 1, 2020 but do not have a material effect on the Company's financial statements.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(a) Basis of preparation (continued)

Changes in significant accounting policies *(continued)*

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

The following standards were new standards, amendments and interpretations requiring adoption by the Company for the first time for the financial year beginning on January 1, 2020.

- *Amendments to References to Conceptual Framework in IFRS Standards*
- *Definition of Material (Amendments to IAS 1 and IAS 8)*
- *Definition of a Business (Amendments to IFRS 3)*
- *Interest Rate Benchmark Reform (Amendments to IFRS9, IAS39 and IFRS7)*

These standards did not have a significant impact on the Company's financial statements.

(ii) Forthcoming requirements:

The following new standards, amendments and interpretations are required to be applied for annual periods beginning after 1 January 2020 and that are available for early adoption in annual periods beginning on 1 January 2020. These standards are not expected to have a significant impact on the Company's financial statements.

- *COVID-19 – Related Rent Concessions (Amendment to IFRS 16)*
- *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.*
- *Property, Plant and Equipment: Proceeds before Intended Use (IAS 16)*
- *Reference to Conceptual Framework (Amendments to IFRS 3)*
- *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
- *IFRS 17 Onerous Contracts – Cost to Fullfilling a Contract(Amendments to IAS 37)*
- *IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts*

(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.

2. Significant Accounting Policies *(continued)*

(b) Foreign currency translation (continued)

(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.

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(d) Property, plant and equipment (continued)

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- Freehold buildings: 50 years and 15 years on valuation
- Plant and machinery: *20 years on cost*
- Furniture and equipment: *3 to 10 years on cost*
- Motor vehicles: *4 years on cost*

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

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

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI. The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'.*

i. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset only if certain criteria are met.

ii. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, nor for taxable temporary differences arising on the initial recognition of goodwill.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(e) Current and deferred income tax (continued)

ii. Deferred tax (continued)

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used.

Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

The principal temporary differences arise from depreciation on property, plant and equipment, revaluations on buildings and provision for pensions and other post-retirement benefits.

(f) Impairment of Non-Derivative financial assets

The Company also recognises loss allowances for estimated credit losses ("ECL") on its receivables, which are disclosed as part of trade and other receivables.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

(g) Impairment of Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories, contract assets and deferred tax assets) to determine whether there are any indicators of impairment. If such indicators exist, then the assets recoverable amount is estimated.

2. Significant Accounting Policies *(continued)*

(g) Impairment of Non-financial assets (continued)

For impairment testing the recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) 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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(i) 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.

- *Recognition and initial measurement*

  Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

  A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value. A trade receivable without a significant financing component is initially measured at the transaction price.

- *Classification*

  On initial recognition, a financial asset is classified as measured at amortised cost.

  Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

  A financial asset is measured at amortised cost if it meets both of the following conditions:

  - it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
  - its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- *Derecognition*

  The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset

  The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

All recognised financial assets are subsequently measured in their entirety at either amortized cost or fair value depending on the classification of the financial asset. The category 'trade and other receivables' would have been disclosed net of its expected credit loss as at that date with the Company's calculation of the credit loss allowance provided in Note 3 (b).

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(j) Financial Liabilities

Classification

Financial instruments that include a contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company are classified as a financial liability.

Measurement

Financial liabilities are classified as measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Derecognition

The Company derecognises financial liabilities when its contractual obligations are discharged or cancelled or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows or the modified terms is recognised at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the considerations paid including any non-cash assets transferred or liabilities assumed is recognised in profit and loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(k) Trade and other receivables

Trade and other receivables are carried at amortized cost, less impairment losses. The policy effective January 1, 2018 is to recognise impairment under expected credit loss.

(l) 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 and are carried at amortized cost.

(m) 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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(j) Financial Liabilities (continued)

(n) 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 enough 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

Definition

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(n) Employee benefits *(continued)*

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

(a) Defined benefit plan *(continued)*

Remeasurements (continued)

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 on November 30, 2018). Roll forward valuations, which are less detailed than full valuations are performed annually.

When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(n) Employee benefits (continued)

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

(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.

(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) Bonus plans

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) Vacation liability

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(o) 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.

(p) Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer. The following section provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers and the Company's 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.

Revenue excludes duty, excise and other taxes related to sales in the period and is stated after deducting rebates, and returns.

(ii) 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.

(q) Leases

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

As a Lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(q) ***Leases*** *(continued)*

As a Lessee *(continued)*

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- *fixed payments, including in-substance fixed payments;*
- *lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and*

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment'.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Refer to Note 22 for additional details.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

2. Significant Accounting Policies *(continued)*

(r) 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.

Additionally, the Company's Bye-Laws allow for the forfeiture of dividends unclaimed after a period of twelve (12) years. These unclaimed dividends are written back to the retained earnings in equity. Refer to Note 18 for additional details.

(s) 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.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company audit committee is assisted in its oversight role by internal audit of the BAT Group. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

(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:

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

3. Financial Risk Management *(continued)*

Financial risk factors *(continued)*

(a) Market risk *(continued)*

	2020 Increase	2020 Decrease
Increase (decrease) in profit before taxation		
USD (5% movement)	7,528	(7,528)
GBP (5% movement)	(203)	203
EUR (5% movement)	(361)	361

	2019 Increase	2019 Decrease
Increase (decrease) in profit before taxation		
USD (5% movement)	7,539	(7,539)
GBP (5% movement)	(135)	135
EUR (5% movement)	(976)	976

An analysis of financial instruments by currency is shown in Note 8(a).

The following exchange rates have been applied in calculating the TT equivalent of the financial instruments denominated in foreign currencies:

	Year end spot rate 2020	Year end spot rate 2019
USD Currency	6.776	6.769
GBP Currency	9.500	8.967
EUR Currency	8.031	7.598

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

3. Financial Risk Management *(continued)*

Financial risk factors *(continued)*

(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. From the reporting date to the date in which the accompanying statements were approved, the Company has collected all of its trade receivables.

Historical loss rates of default were determined and adjusted to reflect current and forwardlooking information on macroeconomic factors affecting the ability of the debtors to settle their payments when they become due. In developing and analysing the behaviours of the loss rates, the Company considers both internal data and external macroeconomic data.

In response to the COVID-19 pandemic, the Company adjusted its forward-looking scenarios to consider additional worse case scenarios taking into consideration recent pronouncements by the IMF and other macroeconomic indicators. Resulting from this assessment, the expected credit loss was determined to not be significant especially given the aforementioned.

However, IFRS 9 'Financial instruments', requires consideration of the possibility that a credit loss can occur. The Company has considered at a minimum to use a provision matrix where a fixed provision rate was applied of 0.05% of the invoice value of all external trade receivables in the current bucket. This rate will differ depending on the aging of these balances.

Cash and deposits are held with a number of reputable financial institutions, with transactional amounts varying between $176,630,476 and $442,628,647 (2019: $$285,000 and $289,400,000). The maximum limit with any one financial institution is $405,382,520 (2019: $271,600,000). Balances in excess of this limit were held temporarily for periods of no more than one week.

In 2020, the Company proactively reviewed its cash projections and credit exposures ensuring its cash management decisions were prudent and reflective of the uncertainties associated with the COVID-19 pandemic and the challenging economic environment.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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, 2020	
Trade payables and accruals (Note 13)	48,133
Statutory liabilities (Note 13)	24,072
Amounts due to related parties/parent company	52,549
Lease liabilities (Note 22 (ii))	621
At December 31, 2019	
Trade payables and accruals (Note 13)	42,953
Statutory liabilities (Note 13)	29,202
Amounts due to related parties/parent company	34,538
Lease liabilities (Note 22 (ii))	625

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. The Company's capital structure consists of equity and lease liabilities. There are no capital requirement imposed on the Company.

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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, 2020						
Cost						
Opening Balance	121,122	255,061	33,517	5,042	37,793	452,535
Additions	2,898	80	467	–	9,807	13,252
Disposals	(5)	(908)	(368)	(779)	–	(2,060)
Transfers	1,881	7,264	825	–	(9,970)	–
Closing Balance	125,896	261,497	34,441	4,263	37,630	463,727
Accumulated Depreciation						
Opening Balance	(15,915)	(156,137)	(30,177)	(1,821)	–	(204,050)
Depreciation	(1,703)	(7,798)	(1,218)	(1,032)	–	(11,751)
Disposals	4	900	362	571	–	1,837
Closing Balance	(17,614)	(163,035)	(31,033)	(2,282)	–	(213,964)
Carrying Amount	**108,282**	**98,462**	**3,408**	**1,981**	**37,630**	**249,763**
Year ended December 31, 2019						
Cost						
Opening Balance	119,660	259,887	32,761	774	33,641	446,723
Recognition of right of use assets on initial application of IFRS16	1,363	–	–	4,268	–	5,631
Additions	251	6,305	11	–	9,773	16,340
Disposals	(184)	(15,975)	–	–	–	(16,159)
Transfers	32	4,844	745	–	(5,621)	–
Closing Balance	121,122	255,061	33,517	5,042	37,793	452,535
Accumulated Depreciation						
Opening Balance	(14,091)	(164,628)	(28,978)	(774)	–	(208,471)
Depreciation	(1,862)	(7,277)	(1,199)	(1,047)	–	(11,385)
Disposals	38	15,768	–	–	–	15,806
Closing Balance	(15,915)	(156,137)	(30,177)	(1,821)	–	(204,050)
Carrying Amount	**105,207**	**98,924**	**3,340**	**3,221**	**37,793**	**248,485**
Carrying amounts						
At January 1, 2019	105,569	95,259	3,783	–	33,641	238,252
At December 31, 2019	**105,207**	**98,924**	**3,340**	**3,221**	**37,793**	**248,485**
At December 31, 2020	**108,282**	**98,462**	**3,408**	**1,981**	**37,630**	**249,763**

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

Capital work in progress consists of the costs to acquire plant and machinery for the upgrade of the Tobacco stem line, Cascaded X2 packer and overwrapper as well as the replacement of the factory roof. These projects are currently ongoing and expected to be completed by June 30, 2021.

	2020 $'000	2019 $'000
(a) Revaluation surplus		
At beginning of the year	60,836	61,786
Depreciation transfer on buildings - net of tax	(950)	(950)
Gain on revaluation – net of tax	–	–
At end of the year	59,886	60,836

The Company's freehold land and buildings evalued every year 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. The valuation adjustment is made when the Fair Value differs significantly from its carrying value.

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.

COVID-19 has had a negative impact on the economic climate of the country. Despite the aforementioned, property prices have not decreased in such a way that would caused a significant impact on the stated values of the Company's Freehold Land and Building asset class. Property prices would have to decline by more than 20% to have a significant impact on the financial statements. This is also consistent with observed trends in the country's inflation and interest rates over the period.

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).

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

(a) Revaluation surplus (continued)

Fair value measurements as at December 31, 2020 using:

	Quoted prices in Active Markets For Identical Assets (Level 1) $'000	Significant Other Observable Inputs (Level 2) $'000	Significant Unobservable Inputs (Level 3) $'000
Recurring fair value measurements			
Land	–	–	33,405
Buildings	–	–	74,878

	Fair Value Hierarchy $	Carrying amount as at January 1, 2020 $	Additions/ Transfers/ Disposals $	Depreciation/ Impairment/ Retirement $	Revalution Gain $	Carrying Amount Carried forward
Land	Level 3	33,405	–	–	–	33,405
Buildings	Level 3	71,802	4,774	(1,699)	–	74,877
		105,207	4,774	(1,699)	–	108,282

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

(a) Revaluation surplus (continued)

Fair value measurements as at December 31, 2019 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	–	–	71,802

	Fair Value Hierarchy	Carrying amount as at January 1, 2019	Additions/ Transfers/ Disposals	Depreciation/ Impairment/ Retirement	Revaluation Gain	Carrying Amount Carried forward
	$	$	$	$	$	
Land	Level 3	33,405	–	–	–	33,405
Buildings	Level 3	72,164	1,462	(1,824)	–	71,802
		105,569	1,462	(1,824)	–	105,207

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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:*

	2020 $'000	2019 $'000
Cost	37,618	32,844
Accumulated depreciation	(13,681)	(13,095)
Net book amount	23,937	19,749

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

	2020	2019
Amount included in cost of sales (Note 15)	9,010	8,678
Amount included in other operating expenses (Note 15)	2,741	2,707
	11,751	11,385

(d) *IFRS16 'Right of Use' assets:*

Property, plant and equipment includes right-of-use assets of $3,295,073 as at December 31, 2020 ($4,562,000 as at December 31, 2019) related to leased vehicles and warehouse connected to trade and merchandising activities. Refer to Note 2 (a) and Note 22 (i) for further details.

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%.

	2020 $'000	2019 $'000
Deferred income tax asset		
- Retirement benefit obligation (Note 6(a))	7,359	12,639
- Post-retirement medical obligation	1,129	655
Deferred income tax asset	8,488	13,294
Deferred income tax liability		
- Revaluation on buildings	11,092	11,418
- Accelerated tax depreciation	28,476	28,863
Deferred income tax liability	39,568	40,281
Net deferred income tax liability	31,080	26,987

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

6. Deferred Income Tax *(continued)*

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

	2020 $'000	2019 $'000
Retirement benefit obligation, excluding deferred lumpsum contribution	7,021	11,148
Deferred lumpsum contribution	338	1,491
	7,359	12,639

(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 2020					
Balance at beginning of year	11,418	28,863	(12,639)	(655)	26,987
(Credit) charge to profit or loss (Note 16)	(326)	(387)	584	128	(1)
Tax on actuarial gains recognised in OCI	–	–	4,696	(602)	4,094
Balance at end of year	11,092	28,476	(7,359)	(1,129)	31,080

	Revaluation on Buildings $'000	Accelerated Tax Depreciation $'000	Retirement Benefit $'000	Post Retirement Medical $'000	Total $'000
As at 31 December 2019					
Balance at beginning of year	11,717	25,748	(18,397)	(957)	18,111
(Credit) charge to profit or loss (Note 16)	(299)	3,115	1,690	82	4,588
Tax on actuarial gains recognised in OCI	–	–	4,068	220	4,288
Balance at end of year	11,418	28,863	(12,639)	(655)	26,987

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

7. Inventories

	2020 $'000	2019 $'000
Raw materials	25,434	20,617
Goods in transit	4,647	4,177
Supplies and sundries	2,939	2,393
Finished goods	11,285	7,330
Inventories in process	2,611	2,110
	46,916	36,627

The cost of inventories recognised as expense and included in "cost of sales" amounted to $134,188,328 (2019: $148,151,850).

A provision was made against supplies and sundries in the amount of $9,764,014 (2019: $9,196,164 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, 2020					
Financial assets					
Trade receivables	20,970	–	–	–	20,970
Prepayments	7,856	–	–	–	7,856
Due from related parties	6,902	1,537	–	13,553	21,992
Cash and cash equivalents	283,149	164,772	–	–	447,921
	318,877	166,309	–	13,553	498,739
Financial liabilities					
Trade payables and accruals	38,521	6,934	1,232	1,446	48,133
Statutory liabilities	24,072	–	–	–	24,072
Lease liabilities	1,479	–	–	–	1,479
Due to related parties	21,589	8,810	2,834	11,968	45,201
Due to parent company	–	–	–	7,348	7,348
	85,661	15,744	4,066	20,762	126,233

8. Financial Instruments *(continued)*

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

	TTD	USD	Euro	GBP	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
As at December 31, 2019					
Financial assets					
Trade receivables	45,565	–	–	–	45,565
Prepayments	10,116	–	–	–	10,116
Due from related parties	1,357	22,101	–	754	24,212
Cash and cash equivalents	146,325	153,693	–	–	300,018
	203,363	175,794	–	754	379,911
Financial liabilities					
Trade payables and accruals	22,446	5,933	2,700	11,874	42,953
Statutory liabilities	29,202	–	–	–	29,202
Lease Liabilities	3,578	–	–	–	3,578
Due to related parties	3,703	19,080	–	4,410	27,193
Due to parent company	3,347	–	–	3,998	7,345
	62,276	25,013	2,700	20,282	110,271

(b) ***Maximum exposure to credit risk***

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer, with major customers being given credit terms of Fifteen (15) days, with Contract Manufacture being Thirry (30) days, all of which have been received subsequent within the credit period, with no history of write off of bad debts off nor their balances credit-impaired at the reporting date. The Company's related party receivables constitute its contract manufacture customers, all of which reside within the Caribbean, specifically Jamaica, Guyana and Suriname.

8. Financial Instruments *(continued)*

(b) ***Maximum exposure to credit risk*** *(continued)*

The Company's internal credit committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, if they are available, financial statements, credit agency information, industry information and in some cases bank references. The credit limits as well as credit usage and payment history are reviewed monthly by the Company's credit committee. Any sales exceeding those credit limits or with any outstanding receivables require approval in keeping with the Company's delegation of authority and reported to the Credit Committee as well.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month for both its corporate and related party customers.

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	Past Due But Not Impaired (> 30 days)	Total
	$'000	$'000	$'000
As at December 31, 2020			
Trade receivables	20,866	104	20,970
Prepayments	7,856	-	7,856
Due from related parties	21,992	-	21,992
Cash at bank	447,921	-	447,921
	498,635	104	498,739
As at December 31, 2019			
Trade receivables	45,565	-	45,565
Prepayments	10,116	-	10,116
Due from related parties	24,212	-	24,212
Cash at bank	300,018	-	300,018
	379,911	-	379,911

The Company does not hold any collateral as security.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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. Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures in keeping with IFRS 9. The expected credit loss in relation to cash and cash equivalents as at December 31, 2020 is not material.

	2020 $'000	2019 $'000
9. Trade and Other Receivables		
Trade receivables	20,970	45,565
Prepayments	7,856	10,116
Receivables from related parties: (Note 19)		
- trade	13,012	11,139
- other	8,980	13,073
	50,818	79,893
10. Cash and Cash Equivalents		
Cash at bank	447,921	300,018
11. Share Capital		
Authorised		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
252,720,000 ordinary shares of no par value	42,120	42,120

12. Pensions and Other Post Retirement Obligations

	2020 $'000	2019 $'000
Statement of Financial Position:		
Retirement benefit obligation	(18,902)	(37,161)
Post-employment medical benefit obligation	(5,232)	(3,652)
Liability in the statement of financial position	(24,134)	(40,813)

(i) Retirement benefits

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

	2020 $'000	2019 $'000
Fair value of plan assets	215,765	213,114
Present value of funded pension obligation	(234,197)	(249,792)
Deficit of funded plans	(18,432)	(36,678)
Present value of unfunded pension obligation	(470)	(483)
Liability in the statement of financial position	(18,902)	(37,161)
Net interest cost	1,883	2,655
Current service cost	3,114	3,622
Administration Expenses	453	–
Net pension expense (Note 12)	5,450	6,277
Remeasurements:		
From plan assets	(5,515)	422
From obligation - funded	21,225	13,185
From obligation - unfunded	(58)	(49)
Remeasurement of net asset	15,652	13,558
Reconciliation of movements in the statement of financial position:		
Net liability recognised as at January 1	(37,161)	(52,963)
Net pension expense	(5,450)	(6,277)
Remeasurement of net asset	15,652	13,558
Employer contributions	8,057	8,521
Net liability recognised as at December 31	(18,902)	(37,161)

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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

Statement of Financial Position: *(continued)*

(i) Retirement benefits *(continued)*

	2020 $'000	2019 $'000
Changes in fair value of plan assets:		
Fair value of plan assets as at January 1	213,114	203,492
Actual return on plan assets:		
- interest income	10,813	10,151
- remeasurement recognised in OCI	(5,515)	422
Company contributions	8,057	8,521
Employee contributions	1,342	1,550
Administration Expenses	(453)	–
Benefit payments	(11,591)	(11,022)
Fair value of plan assets as at December 31	215,767	213,114
Changes in present value of the obligation (funded and unfunded):		
Present value of obligation as at 1 January	(250,275)	(256,455)
Interest cost	(12,694)	(12,806)
Current service cost - employer	(3,114)	(3,622)
Current service cost - employee	(1,342)	(1,550)
Benefit payments	11,591	11,022
Remeasurement recognised in OCI:		
- financial assumption changes	17,388	23,646
- experience	3,779	(10,510)
Present value of obligation as at December 31	(234,667)	(250,275)

The principal actuarial assumptions were as follows:

	Per Annum 2020 %	Per Annum 2019 %
Discount rate	5.60	5.10
Future salary increases	4.00	4.00
Future pension increases	3.00	3.00
Mortality	NISTT2012	NISTT2012

The change in discount rate assumption to 5.6% in 2020 is based on market trends and expectations for same within Trinidad & Tobago.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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, 2021 are $8,211,076.

Plan assets comprise the following:

	2020			2019		
		$'000	%		$'000	%
Equity investments						
Local	46,139	–		41,228	–	
Foreign	35,051	81,190	38	45,485	86,713	41
Debt instruments						
Local	69,935	–		65,276	–	
Foreign	39,751	109,686	51	35,994	101,270	48
Property						
Local	–	2,835	1	–	5,073	2
Other						
Local	11,673	–		13,927	–	
Foreign	10,381	22,054	10	6,131	20,058	9
		215,765	100		213,114	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. All Equity investments and approximately $8.4 million of local debt instruments have quoted prices in an active market. The remainder of debt insturments of approximately $101.2 million do not have prices quoted in an active market. The local properties and other plan assets, which consist of cash and mutual funds, are not quoted on an exchange.

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

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

	2020	2019
	$'000	$'000
Unfunded post-retirement health care obligation	5,232	3,652
The movement in the defined benefit obligation over the year is as follows:		
Interest cost	179	150
Current service cost	52	26
Post-retirement health care expense	231	176

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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

(ii) Post employment medical benefit obligation (continued)

Remeasurements recognised in other comprehensive income:

	2020 $'000	2019 $'000
From experience adjustments	(2,006)	(733)
Reconciliation of movements in statement of financial position:		
Net liability recognised as at January 1	(3,652)	(3,192)
Net expense	(231)	(176)
Remeasurement of net liability	(2,006)	(733)
Employer premiums for existing retirees/clinic cost	657	449
Net liability recognised as at December 31	(5,232)	(3,652)
Changes in present value of the obligation:		
Present value of obligation as at 1 January	(3,652)	(3,192)
Interest cost	(179)	(150)
Current service cost	(52)	(26)
Employer premiums for existing retirees/clinic cost	657	449
Remeasurement recognised in OCI:		
- experience	(2,006)	(733)
Present value of obligation as at December 31	(5,232)	(3,652)

The principal actuarial assumptions were as follows:

	2020 %	2019 %
Discount rate	5.80	5.30
Premium/clinic cost escalation	4.00	3.50
% married	90	90
Retiree mortality table	NISTT2012	NISTT2012

Expected contributions to post employment medical benefit plans for the year ending December 31, 2021 are $742,987. The change in discount rate for the IAS 19 valuation of Pension (5.6%) and Medical (5.8%) was based on an agreed upon recommendation between Management and the Company's actuaries wherein an extrapolation along the October 31 GOTT yield curve allowed for a range of 5.6% to 5.8% being consistent with the IAS 19 guidelines.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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	Decrease
	$'000	$'000
Effect on the aggregate of the current service cost		
and interest cost	15	(11)
Effect on the defined benefit obligation	582	(489)

(iii) Defined benefit pension plan

The Company operates a defined benefit pension plan regulated by the Insurance Act, 2018 (as amended by the Insurance (Amendment) Act, 2020) 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 16.7 years.

The weighted average duration of the post-employment medical benefit obligation is 18.5 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 $31.4 Million during the period 2008 to 2012 with $9 Million also injected for the period 2019 to 2020. 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:

	2020 Impact on defined benefit obligation (DBO)		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate:	0.50%	Decrease DBO by 6.6%	Increase DBO by 7.4%
Salary growth rate:	0.50%	Increase DBO by 1.9%	Decrease DBO by 1.7%
Pension growth rate:	0.25%	Increase DBO by 2.4%	Decrease DBO by 2.3%

As at December 31, 2020, 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 $15,470,000 lower or $17,383,000 higher (2019: $17,485,000 lower or $19,744,000 higher).

	Increase by 1 Year in Assumption	**Decrease by 1 Year in Assumption**
Life expectancy:	Increase by 3.1%	Decrease by 3.1%

	2019 Impact on defined benefit obligation (DBO)		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
Discount rate:	0.50%	Decrease DBO by 7.0%	Increase DBO by 7.9%
Salary growth rate:	0.50%	Increase DBO by 2.1%	Decrease DBO by 1.9%
Pension growth rate:	0.25%	Increase DBO by 2.5%	Decrease DBO by 2.4%

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

(iv) Sensitivity of assumptions (continued)

	Increase by 1 Year in Assumption	Decrease by 1 Year in Assumption
Life expectancy:	Increase by 3.2%	Decrease by 3.3%

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.

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 38% 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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

	2020 $'000	2019 $'000
13. Trade and Other Payables		
Trade payables and accruals	48,133	42,953
Statutory liabilities	24,072	29,202
Due to related parties (Note 19)		
- trade	37,851	10,606
- other	7,350	16,587
	117,406	99,348
14. Revenue		
Billings excluding VAT – including excise	1,124,032	1,165,106
Less excise	(224,115)	(229,741)
	899,917	935,365

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.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

15. Expenses by Function

	2020 $'000	2019 $'000
Cost of sales		
- Raw materials and consumables	90,034	99,734
- Employee benefits	42,852	36,055
- Royalties	32,683	34,348
- Manufacturing overheads	36,441	28,175
- Depreciation	9,010	8,678
	211,020	**206,990**
Distribution costs		
- Brand support expenses	4,494	5,788
- Employee benefits	4,303	4,564
- Technical and advisory services	1,095	2,166
- Inventory write-off	123	391
- Other distributions costs	890	1,445
	10,905	**14,354**
Administrative expenses		
- Technical and advisory services	26,610	35,625
- Employee benefits	14,432	14,022
- IT expenses	10,355	11,300
- Travel and related expenses	1,197	2,354
- Professional Fees	1,575	2,689
- Other administrative expenses	21,368	17,082
	75,537	**83,072**
Other operating expenses		
- Selling expenses	3,742	10,229
- IT expenses	5,542	7,750
- Employee benefits	2,810	3,354
- Depreciation	2,741	2,382
- Other expenses	406	1,912
	15,241	**25,627**

(a) Employee benefit expense

	2020	2019
Wages and salaries and other termination benefits	43,820	45,680
Other benefits	19,431	12,296
Pension costs:		
- defined benefit plan (Note 12)	5,450	6,277
- defined contribution plan	850	850
Post-employment medical benefits (Note 12)	231	176
	69,782	65,279

Number of employees as at year end 195 (2019: 192).

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

16. Taxation

Corporation tax:		
- current year	177,455	184,357
- adjustment to prior year's estimates	601	581
Deferred income tax (Note 6)	(1)	4,588
	178,055	189,526

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:

	2020 $'000	2019 $'000
Profit before taxation	588,076	607,762
Tax calculated at 30%	176,423	182,329
Expenses not deductible for tax	1,049	6,643
Income/allowances not subject to tax	(18)	(27)
Corporation tax – adjustment to prior year's estimates	601	581
	178,055	189,526

17. Earnings per Share

Basic earnings per ordinary share are calculated by dividing the profit or loss for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2020	2019
Profit for the year attributable to equity holders ($'000)	410,021	418,236
Weighted-average number of ordinary shares ('000)	252,720	252,720
Basic and diluted earnings per share	$1.62	$1.65

18. Dividends Paid on Ordinary Shares

	2020 $'000	2019 $'000
Final dividend – prior year	128,887	123,833
First interim dividend	-	69,919
Second interim dividend	98,561	97,718
Third interim dividend	65,917	99,403
	293,365	390,873

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

18. Dividends Paid on Ordinary Shares *(continued)*

A final dividend in respect of 2020, of $0.76 cents per share (2019 of $0.51 cents per share) amounting to $192,067,200 (2019: $128,887,200) is to be proposed at the Annual General Meeting to be held on May 28, 2021. If approved, the total dividend for the year will be $1.54, 1.91% lower than the dividend distribution of $1.57 with respect to 2019.

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 $1.7M for periods 2005, 2006 and 2007 were written back to the retained earnings in equity in 2019. The next review is scheduled to take place in 2021.

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:

	2020 $'000	2019 $'000
(a) Sale of goods and services		
Sale of goods - related parties	102,241	102,723
Recharge of services - related parties	23,782	18,039
(b) Purchases of goods and services		
Purchases of goods – related parties	52,133	50,682
Purchases of services – related parties	47,627	65,588
Purchases of services – parent company	35,879	37,059

The Company has several transactions and relationships with related parties as defined by IAS 24 Related Party Disclosures, all of which are undertaken in the normal course of business.

These transactions include the sale and purchase of manufactured cigarettes and raw materials and charges for Royalties, Services and Fees. The recharges of services include reimbursement for shared employee costs and writeoffs relating to contract manufacturing.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

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

	2020 $'000	2019 $'000
(c) Key management compensation		
Salaries and other short-term employee benefits	11,558	7,097
Post-retirement medical obligations	1	1
Post-retirement benefits	114	462
(d) Receivable from related parties (Note 9)	21,992	24,212
Payable to related parties (Note 13)	45,201	27,193
Payable to parent company	7,348	7,345

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 (2019: 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

	2020 $'000	2019 $'000
Customs and immigration bonds	16,930	16,937

These consist of bonds required to be kept by the Company in order to meet legal requirements with the government of Trinidad and Tobago. The probability of this bond being utilised is remote.

21. Commitments

(a) Capital commitments

Authorised and contracted for, and not provided for in the financial statements.	3,970	10,076

During 2020, the Company entered into several contracts to purchase property, plant and equipment and upgrade its existing plant and equipment tentatively to be performed in 2021.

22. IFRS 16 Leases as a Lessee

The Company leases vehicles and a warehouse, both connected to trade and merchandising activities. The leases for the vehicles are for a four year period. The lease for the warehouse is renewed and renegotiated every year with the foreseeable renewal period being 3 years as at December 31, 2020.

(i) Right-of-use assets

	Vehicle	Warehouse	Total
Balance as at January 1, 2020	**3,222**	**1,340**	**4,562**
Depreciation charge for the year	(1,032)	(27)	(1,059)
Disposals	(377)	–	(377)
Depreciation on Disposals	169	–	169
Balance as at December 31, 2020	**1,982**	**1,313**	**3,295**

(ii) Lease Liability

Balance as at January 1, 2020	**3,578**
Interest on lease liabilities	348
Principal payments	(2,447)
Balance as at December 31, 2020	**1,479**
Non-current (One to Four years)	858
Current (Less than one year)	621
Balance as at January 1, 2019	**5,631**
Interest on lease liabilities	521
Principal payments	(2,574)
Balance as at December 31, 2019	**3,578**
Non-current (One to Four years)	2,953
Current (Less than one year)	625

(iii) Amounts recognised in profit or loss

	2020	2019
Interest on lease liabilities	348	521
Depreciation expense on right of use assets	1,059	1,069

(iv) Amounts recognised in statement of cash flows

	2020	2019
Total Cash Outflow for Leases	2,447	2,574

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

23. 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. All the Company's non-current assets are located in Trinidad and Tobago. Revenues from two customers of the Company's Domestic segment represented approximately $796,000,000 (2019: $831,000,000) of the Company's total revenues. This consist of a 50% split between the two companies.

The segment results for the year are as follows:

	Domestic	CARICOM	Unallocated	Total
	TT$'000	TT$'000	TT$'000	TT$'000
Year ended 31 December 2020				
Revenue	797,676	102,241	–	899,917
Gross profit	674,163	14,734	–	688,897

	Domestic	CARICOM	Unallocated	Total
	TT$'000	TT$'000	TT$'000	TT$'000
Year ended 31 December 2019				
Revenue	832,642	102,723	–	935,365
Gross profit	716,077	12,298	–	728,375
Total Segment Assets				
December 31, 2020	59,387	38,347	711,089	808,823
December 31, 2019	85,969	30,551	566,868	683,388

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

24. Subsequent Events

The Company has evaluated events occurring after December 31, 2020, in order to assess and determine the need for potential recognition or disclosure in these financial statements. Such events were evaluated through March 15, 2021, the date these financial statements were available to be issued. Based upon this evaluation, the Company has not determined any material items to be disclosed.

25. COVID-19

In March 2020, a global pandemic was declared by the World Health Organization related to the novel coronavirus disease 2019 (COVID-19). Below were the impacts and how the Company responded for the year ending December 31, 2020.

- *Reductions in earnings, and productivity* – The Company was able to continue to sell to its main distributors who, were retailing to their customers that were deemed to be essential services by the Government of Trinidad and Tobago. The Company was able to effectively manage its expenditure during the government implemented restrictions ("restrictions") to mitigate the effect in the reduction in revenue as a result of COVID-19 . As such, there was a marginal decline in profitability as a result of the measures taken.
- *Delays in collections* – The entity was able to manage credit terms with its customers at during the restrictionsand still achieve its full collections subsequent to the year end.
- *Reduced hours of operations in facilities* – During the restrictions, the Company was one of the first factories to obtain approval to resume work during the restrictions which allowed minimal delay in production in the second quarter of 2020.
- *Delays in projects and planned business expansions, including those of customers* – There were no major projects planned for customers during the restrictions. All other, capital projects were delayed temporarily during the restrictions.
- *Capital market disruption* – There were no major capital market disruptions during the restrictions. before the closure of the borders to mitigate risk of stock outages.
- *Unavailability of Company personnel* – The Company arranged work from home measures for its administrative employees. Also for its factory workers, the Company was able to facilitate a safe working environment to continue production and at the same time continuing to keep its employees safe.
- *Reduced business and economic activity due to disruptions in tourism, sports, cultural and other leisure activities* – Though there was a closure of the entertainment channels during the restrictions, this was compensated by an increase in supermarket sales. As such, the distributors continued to purchase from the Company to service demand for the Company's products.

Notes to Financial Statements

December 31, 2020 *(Expressed in Trinidad and Tobago Dollars)*

25. COVID-19 *(continued)*

The extent to which such events will impact the Company's operations will depend on future developments. As of the date of issue of these financial statements the Company did not experience significant adverse consequences as a result of COVID-19, whilst payments continued to be made by customers allowing the Company to continue meeting its obligations as and when they become due. Nonetheless, the ultimate future financial impact of COVID-19 on the entity cannot be accurately estimated as it depends on the evolution of the pandemic and the ability to find and administer a vaccine within a reasonable timeframe Because of the foregoing this has not impacted management's assessment of going concern for the Company.

Notes