



## CARRERAS LIMITED

On behalf of the Board of Directors, I am pleased to report the unaudited financial results for the **THIRD QUARTER** ended December 31, 2010.

**Third Quarter ended December 31, 2010 Performance Highlights are:**

	Unaudited Discrete		%	Unaudited Cumulative		%
	Oct-Dec Q3 10/11	Oct-Dec Q3 09/10		Apr-Dec Q3 10/11	Apr-Dec Q3 09/10	
	\$000	\$000		\$000	\$000	
Gross operating revenue	3,472,028	3,733,420	-7.0%	9,549,110	8,168,691	16.9%
Total operating income	3,477,112	3,735,152	-6.9%	9,584,674	8,172,422	17.3%
Interest and other investment income	34,307	55,373	-38.0%	92,126	224,711	-59.0%
Net income	713,692	849,315	-16.0%	2,134,766	1,937,110	10.2%
EPS	147.0	175.0	-16.0%	439.8	399.0	10.2%

Carreras Limited achieved total operating income of \$3,472.0 million and \$9,549.1 million for the third quarter and for the period ended December 31, 2010 respectively, representing a decline of 7.0% and an increase of 16.9% respectively when compared to the same periods last year.

The Company delivered \$713.7 million in net income for the third quarter and \$2,134.8 million for the period ending December 31, 2010 respectively, representing a decline of 16.0% and an increase of 10.2% versus the same periods last year.

Cigarette sales volume for the quarter experienced a decline as our consumers grappled with the high levels of price increases resulting from excessive increases in Special Consumption Tax (SCT). This performance reflects the effect of a 42% increase in excise tax on cigarettes in May, 2009 and another 31.2% levied in January, 2010. These two increases in excise taxes resulted in two cigarette price increases impacting our consumers.

The company remains deeply concerned at the impetus and fillip that could be given to the illicit trade in cigarettes if the Government were to continue an excessively high and very frequent approach to the levying of taxes on the industry. Our volumes will continue to be challenged going forward if excise increases continue and at such high levels, especially within an environment where consumers' disposable income is already being stretched to meet basic needs.

Indeed, the unfortunate reality is that an emboldened illicit trade, fuelled by an aggressive tax policy on the legal industry, would be totally outside of the tax net of the Government. We are, therefore, seeking to engage and to have meaningful dialogue with the authorities to have a collaborative partnership so as to ensure that the revenue streams of the Government and the sustainability of the legal industry are preserved and remain structurally sustainable.

Therefore, a major focus of the Company over the next few months is to continue to work with the Government to manage illicit trade in cigarettes, implementing strategies to stem the volume decline on the industry and to ensure long term sustainability of the business for all stakeholders.

Interest and other investment income reported were \$34.3 million and \$92.1 million for the third quarter and for the period ended December 31, 2010 respectively, representing a decline of 38.0% and 59.0% when compared to the same periods last year. This performance is as expected, following on the Government's very successful debt management initiative (JDX). We continue to applaud the Government on the success of this initiative and the commensurate positive long term impact this should have on our economy. As reported in previous quarters, the consequential result is that the company's interest income earned for the period has declined dramatically, impacting the company's earnings per share (EPS).

In addition, as the company continues to distribute excess cash as dividends to the shareholders, less cash will be available to invest and, consequently, interest income will likely continue to be adversely impacted.

Our volume base for the quarter and year to date is significantly lower than the underlying base prior to the May 2009 and January 2010 excise led price increases. Consequently, the financial results were negatively impacted by the lower revenue earned. However, the effect of the negative impact was mitigated by the positive impact on variable costs caused by the revaluation of the local currency and the company's efficient management of expenses at a level below inflation. Notwithstanding, there was a 16.0% decline in net income for the third quarter and an increase of 10.2% for the period ending December 31, 2010.

Despite the challenging environment, your Board of Directors approved interim dividend payments during the period amounting to \$2.50 per stock unit. I am pleased to report that your Board of Directors in our meeting held on February 8, 2011, approved a third interim dividend of \$1.50 per stock unit for payment out of accumulated profits on March 17, 2011.

During the third quarter, we continued as a company to place strong support behind the crime prevention thrust of both the Government, and, particularly, the work of the Jamaica Constabulary Force (JCF). Specifically, for the period under review, Carreras donated another complement of motor cycles towards further bolstering the quick response capability of the Jamaica Constabulary Force. Shareholders will recall that in 2009, we made a similar donation, including a contribution of well needed computer equipment to aid the work of the Organised Crime Investigation Division (OCID) of the JCF. The company in

**this last quarter further strengthened our commitment to aiding crime prevention through the provision of additional communication equipment aimed at upgrading the communications platform of the Office of the Commissioner of Police. Also, the period saw the company continuing in its charitable giving to organizations and institutions toward social upliftment.**

**On February 12, 2010, the Court of Appeal gave judgment in favour of a wholly-owned subsidiary, Cigarette Company of Jamaica Limited (in voluntary liquidation) in the case brought in the Supreme Court by the Commissioner of Tax Payer Audit & Assessment. The Court also awarded CCJ its legal costs (both in the Supreme Court and the Court of Appeal), such costs to be taxed if not agreed.**

**The result of the judgment was that the tax paid by CCJ, based on the judgment of the Supreme Court, is repayable to CCJ. The Commissioner applied to the Court of Appeal to stay execution of the judgment (i.e. to postpone refund of the tax paid by CCJ) pending the outcome of final appeal by the Commissioner to the Privy Council. The Commissioner's application was rejected and the tax refund is now due and payable.**

**CCJ has made a claim for the refund together with interest. However, to date, the Company has not received a response to its claim.**

**Based on the judgment of the Court of Appeal, the amount paid of J\$1,733.1 million is reflected in the financial statements as taxation recoverable.**

**We continue to await the final approval from the FSC for the winding up of the Carreras Superannuation Scheme.**

**On behalf of the Board**



**Christopher Burton  
Chairman**



# **CARRERAS LIMITED**

## **CARRERAS LIMITED & SUBSIDIARIES**

### **UNAUDITED GROUP FINANCIAL STATEMENTS**

**For Nine months to December 31, 2010**

	<b>GROUP PROFIT &amp; LOSS ACCOUNT</b>				
	<b>UNAUDITED</b>		<b>UNAUDITED</b>		<b>AUDITED</b>
	<b>9 months to</b>		<b>3 months to</b>		<b>12 months</b>
	<b>December-10</b>	<b>December-09</b>	<b>December-10</b>	<b>December-09</b>	<b>March-10</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Gross operating revenue	9,549,110	8,168,691	3,472,028	3,733,420	10,410,178
Cost of operating revenue	(5,137,076)	(4,243,214)	(1,874,742)	(1,973,189)	(5,327,592)
Gross operating profit	4,412,034	3,925,477	1,597,286	1,760,231	5,082,586
Employee benefit income	-	-	-	-	711,200
Interest and other investment income	92,126	224,711	34,307	55,373	269,142
Other operating income:					
Exchange gains/(Loss)	(23,381)	9,636	(3,060)	223	4,945
Other income	35,564	3,731	5,084	1,732	11,507
Distribution and marketing expenses	(620,488)	(639,755)	(260,795)	(283,360)	(816,613)
Administrative expenses	(688,825)	(629,531)	(295,944)	(273,825)	(768,282)
Profit before income tax	3,207,030	2,894,269	1,076,878	1,260,374	4,494,485
Income tax	(1,072,264)	(957,159)	(363,186)	(411,059)	(1,492,610)
Profit for the period	2,134,766	1,937,110	713,692	849,315	3,001,875
<b>Other comprehensive income</b>					
Defined benefit plan actuarial losses	-	-	-	-	(570,000)
Change in unrecognised employee benefit asset	-	-	-	-	(38,800)
Income tax on other comprehensive income	-	-	-	-	202,933
Deferred tax on subsidiaries	-	-	-	-	(155)
<b>Other comprehensive income, net of tax</b>	-	-	-	-	(406,022)
Total comprehensive income for the year	2,134,766	1,937,110	713,692	849,315	2,595,853
Attributable to:					
Minority interests	-	-	-	(14)	6
Stockholders in parent	2,134,766	1,937,110	713,692	849,329	3,001,869
	2,134,766	1,937,110	713,692	849,315	3,001,875
Total comprehensive income attributed to:					
Minority interests	-	-	-	-	6
Stockholders in parent	-	-	-	-	2,595,847
	-	-	-	-	2,595,853
Earnings per ordinary stock unit of 25c each	439.8¢	399.0¢	147.0¢	175.0¢	618.38¢

# CARRERAS LIMITED & SUBSIDIARIES

## UNAUDITED GROUP FINANCIAL STATEMENTS

As at December 31, 2010

	<b>GROUP BALANCE SHEET</b>	
	<b>Unaudited</b>	<b>Audited</b>
	<b>31-Dec-10</b>	<b>31-Mar-10</b>
	<b>\$000</b>	<b>\$000</b>
<b>Current Assets</b>		
Cash and cash equivalents	2,003,733	1,464,345
Resale Agreements	987,668	741,029
Accounts receivable	311,379	312,259
Income tax recoverable	173,887	152,172
Inventories	198,412	211,098
	<b>3,675,079</b>	<b>2,880,903</b>
<b>Current Liabilities</b>		
Accounts payable	1,039,776	965,468
Income tax payable	1,236,677	932,256
	<b>2,276,453</b>	<b>1,897,724</b>
<b>Net Current Assets</b>	<b>1,398,626</b>	<b>983,179</b>
<b>Non-current assets:</b>		
Retirement benefit asset	257,700	259,200
Taxation Recoverable	1,733,137	1,733,137
Fixed Assets	149,675	114,724
	<b>3,539,138</b>	<b>3,090,240</b>
<b>Equity:</b>		
Share Capital	121,360	121,360
Reserves:		
Unappropriated profits	1,212,444	776,717
Capital	22,322	22,322
Other	1,870,762	1,870,762
	<b>3,105,528</b>	<b>2,669,801</b>
<b>Total attributable to stockholders of parent</b>	<b>3,226,888</b>	<b>2,791,161</b>
Minority interests	4,806	4,806
<b>Total equity</b>	<b>3,231,694</b>	<b>2,795,967</b>
<b>Non-current liabilities:</b>		
Deferred taxation liability	162,744	169,973
Retirement benefit obligation	144,700	124,300
	<b>3,539,138</b>	<b>3,090,240</b>

ON BEHALF OF THE BOARD

Richard Pandohie  
Managing Director

Marcus Steele  
Finance Director

CARRERAS LIMITED

**Statement of Changes in Equity  
For 9 Months ended December 31, 2010**

The Group

Share Capital \$'000	Unappropriated Profits \$'000	Capital Reserves \$'000	Other Reserves \$'000	Total \$'000	Minority Interest \$'000	Total \$'000
121,360	1,578,950	22,322	1,870,762	3,593,394	4,800	3,598,194
	1,933,804			1,933,804	-	1,933,804
-	1,933,804 (2,427,200)	-	-	1,933,804 (2,427,200)	-	1,933,804 (2,427,200)
	237			237		237
-	(493,159)	-	-	(493,159)	-	(493,159)
121,360	1,085,791	22,322	1,870,762	3,100,235	4,800	3,105,035

Audited balance at March 31, 2009

Net profit for the period attributable to stockholders

Total recognised gains for the year

Dividends paid

Deferred tax on reserves of subsidiaries in liquidation

Net movements for the year

Unaudited balance at December 31, 2009

Share Capital \$'000	Unappropriated Profits \$'000	Capital Reserves \$'000	Other Reserves \$'000	Total \$'000	Minority Interest \$'000	Total \$'000
121,360	776,717	22,322	1,870,762	2,791,161	4,806	2,795,967
	2,134,767			2,134,767	-	2,134,767
-	2,134,767 (1,699,040)	-	-	2,134,767 (1,699,040)	-	2,134,767 (1,699,040)
	435,727			435,727		435,727
121,360	1,212,444	22,322	1,870,762	3,226,888	4,806	3,231,694

Audited balance at March 31, 2010

Net profit for the period attributable to stockholders

Total recognised gains for the year

Dividends paid

Net movements for the year

Unaudited balance at December 31, 2010

**CARRERAS LIMITED****Statement of Changes in Equity  
For 9 Months ended December 31, 2010****The Company**

Audited balance at March 31, 2009

Net profit for the period attributable to stockholders

Total recognised gains for the year

Dividends paid

Net movements for the year

Unaudited balance at December 31, 2009

Share Capital \$'000	Revenue Reserves \$'000	Capital Reserves \$'000	Total \$'000
121,360	1,569,683	22,322	1,713,365
			-
	1,944,253		1,944,253
-	1,944,253	-	1,944,253
	(2,427,200)	-	(2,427,200)
-	(482,947)	-	(482,947)
121,360	1,086,736	22,322	1,230,418

Audited balance at March 31, 2010

Net profit for the period attributable to stockholders

Total recognised gains for the year

Dividends paid

Net movements for the year

Unaudited balance at December 31, 2010

Share Capital \$'000	Revenue Reserves \$'000	Capital Reserves \$'000	Total \$'000
121,360	773,754	22,322	917,436
	2,134,767		2,134,767
-	2,134,767	-	2,134,767
	(1,699,040)	-	(1,699,040)
-	435,727	-	435,727
121,360	1,209,481	22,322	1,353,163

# CARRERAS LIMITED & SUBSIDIARIES

## UNAUDITED GROUP FINANCIAL STATEMENTS

For 9 Months ended December 31, 2010

### Cash flows from operating activities:

Net profit for the period

Items not affecting cash

Changes in working capital

Cash provided by operating activities

Cash (used)/provided by investing activities

Cash used by financing activities

Increase/(Decrease) in cash and cash equivalents

Effect of exchange rate changes on cash and cash equivalents

Cash and cash equivalents, at beginning of period

Cash and cash equivalents, at end of period

Group Statement of Cash Flows		
9 months	9 months	12 months
31-Dec-10	31-Dec-09	31-Mar-10
\$'000	\$'000	\$'000
2,134,767	1,937,109	3,001,875
1,062,057	778,472	530,719
3,196,824	2,715,581	3,532,594
(703,663)	(1,600,393)	(2,065,759)
2,493,161	1,115,188	1,466,834
(231,352)	1,307,801	1,543,525
(1,699,040)	(2,427,200)	(3,398,080)
562,769	(4,211)	(387,720)
(23,381)	9,636	4,945
1,464,345	1,847,120	1,847,120
2,003,733	1,852,545	1,464,345



## **CARRERAS LIMITED AND SUBSIDIARIES**

### **Notes to the Financial Statements December 31, 2010**

#### **1. General**

Carreras Limited ("the company") is incorporated and domiciled in Jamaica and is a 50.4% subsidiary of Rothmans Holdings (Caricom) Limited, which is incorporated in St. Lucia. The ultimate parent company is British American Tobacco plc, incorporated in the United Kingdom. The principal activities of the company are the marketing and distribution of cigarettes.

The principal place of business is Twickenham Park, St. Catherine, Jamaica.

#### **2. (a) Basis of Preparation**

The financial statements are presented on the historical cost basis. Unless otherwise stated, the financial statements are presented in thousands of Jamaican dollars (\$'000), which is the functional currency of the company and the group.

#### **(b) Accounting estimates and judgements:**

The preparation of the financial statements in conformity with IFRS and the Act requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of, and disclosures related to, assets, liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expenses for the period then ended. The estimates and associated assumptions are based on historical experience and/or various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, the significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the financial statements, or which have a risk of material adjustments in the next year are as follows:

##### **(i) Key source of estimation uncertainty**

###### **Employee benefits:**

The amounts recognised in the balance sheet and income statement for pension and other post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-employment obligations and the expected rate of increase in medical costs for post-employment medical benefits.

Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligations.

It is reasonably possible that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

##### **(ii) There are no critical accounting judgements in applying the group's and the company's accounting policies.**

#### **3. Significant Accounting Policies**

The same accounting policies and methods of computation are followed in the interim financial statements as compared with the most recent annual financial statements.

#### **4. Income Tax**

Income tax for the year comprises current and deferred tax based upon taxable profits. Capital gains, which are not subject to taxation, are excluded.

#### **5. Earnings per Stock Unit**

The calculation of earnings per stock unit is based on the net profit for the period attributable to stockholders and the 485,440,000 issued and fully paid ordinary stock units.

#### **6. Deferred Tax**

A provision has been made in these financial statements for deferred transfer tax on undistributed reserves of subsidiaries in liquidation.

## 7. Tax Assessment

On February 12, 2010, the Court of Appeal handed down its judgment in the appeal by its subsidiary Cigarette Company of Jamaica Limited (in voluntary liquidation) (CCJ) against the assessment by Commissioner Taxpayer Audit and Assessment. The Court allowed the appeal with costs in the Court of Appeal and the Court below to be CCJ's; such costs to be taxed if not agreed. Based on this judgment of the Court of Appeal the amount paid of J\$1,733.1 million is reflected in the financial statements as taxation recoverable. Interest due as determined by the Court has not been accounted for in these financial statements.

On April 26, 2010 the Court of Appeal granted the application by the Commissioner for leave to appeal to the Privy Council, however, the application for a stay of execution was refused.

## 8. Contingency

On July 16, 2004 an award was made against Sans Souci Limited a subsidiary company, in arbitration proceedings between it and VRL Services Limited whereby Sans Souci Limited was ordered to pay VRL Services Limited the sum of J\$370,705,264 together with interest of 21% per annum and costs. An application was made to the Supreme Court pursuant to Section 12 of the Arbitration Act and the inherent Jurisdiction of the Court to set aside the award or alternatively to reduce the amount of the said award. Under a Consent Order for stay of execution, Sans Souci Limited paid VRL Services the said sum of J\$370,705,264 together with interest of J\$68,037,111 and J\$10,000,000.00 on account of costs, secured by bank guarantees to be repaid to Sans Souci Limited with simple interest thereon, should it succeed in setting aside or varying the Award.

Since then there have been other proceedings namely the Appeal in the execution of the Award Proceedings, the hearing to set aside the Award and the Appeal against the Judgment.

On 12th December, 2008 the following Order was made by the Court of Appeal.

- "1. The Appeal against the order of Mrs. Harris, J., refusing to set aside the award is dismissed in part.
2. The Appeal against the award of damages is allowed and the matter is remitted to the Arbitrators to determine the issue of damages only.
3. Half the costs of this appeal and of the costs below are to be paid by the respondent, such costs to be agreed or taxed."

The extent of the jurisdiction of the Arbitrators with respect to Item 2 of the Order is in dispute. The Court of Appeal heard the appeal of Sans Souci Limited against the order that the jurisdiction of the Arbitrators relating to the issue of damages was limited to 'unrecoverable expenses' on July 13 & 14, 2009.

The Court of Appeal handed down its judgment on September 25, 2009 in favour of VRL. SSL applied for Leave to Appeal to the Privy Council.

While the Appeals were in train, the arbitrators re-considered the question of damages but only in respect of the "unrecoverable expenses" and not in the broader context as SSL had asked them to. The arbitrators made a new award confirming the one they made in 2004. SSL has applied to have this new award set aside, primarily on the basis that the arbitrators had no jurisdiction to award interest in the manner they did. This leave to appeal to the Privy Council was granted on July 12, 2010. No date for the appeal has yet been set for the hearing at the Privy Council.

No provision has been made in the accounts with respect to any positive outcome which may arise.

ON BEHALF OF THE BOARD

  
Richard Pandohie  
Managing Director

  
Marcus Steele  
Finance Director