Richemont

Consolidated Interim Financial Statements

30 September 2005

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Consolidated balance sheets

	Notes	30 September 2005 € m	31 March 2005 € m
ASSETS			
Non-current assets			
Property, plant and equipment		726	681
Intangible assets		51	52
Investment in associated undertaking	*6*	3 240	3 218
Deferred income tax assets		231	227
Financial assets held at fair value through profit or loss		36	36
Other non-current assets		166	153
		4 450	4 367
Current assets			
Inventories		1 644	1 522
Trade and other receivables		702	520
Derivative financial instruments		2	15
Prepayments and accrued income		113	116
Bank and cash		1 140	1 409
		3 601	3 582
Total assets		8 051	7 949
EQUITY AND LIABILITIES			
Equity			
Share capital		334	334
Participation reserve		645	645
Treasury units		(471)	(560)
Fair value and other reserves		47	59
Cumulative translation adjustment reserve		44	24
Retained earnings		5 691	5 773
Total Unitholders' equity		6 290	6 275
Minority interest		6	6
Total equity		6 296	6 281
LIABILITIES			
Non-current liabilities			
Borrowings		206	155
Deferred income tax liabilities		34	34
Retirement benefit obligations	*7*	101	97
Provisions		46	34
		387	320
Current liabilities			
Trade and other payables		360	352
Current income tax liabilities		146	120
Borrowings		7	4
Derivative financial instruments		28	3
Provisions		73	63
Accruals and deferred income		211	173
Short-term loans		306	407
Bank overdrafts		237	226
		1 368	1 348
Total liabilities		1 755	1 668
Total equity and liabilities		8 051	7 949

The notes on pages 7 to 33 are an integral part of these consolidated interim financial statements.

Consolidated income statements

	Notes	Six months to 30 September 2005 € m	Six months to 30 September 2004 € m	Year to 31 March 2005 € m
Sales	*5*	1 990	1 718	3 671
Cost of sales		(715)	(670)	(1 415)
Gross profit		1 275	1 048	2 256
Selling and distribution expenses		(470)	(421)	(893)
Communication expenses		(235)	(201)	(414)
Administrative expenses		(234)	(236)	(468)
Other operating (expenses)/income	*8*	(2)	9	80
Operating profit		334	199	561
After:				
Gain from sale of subsidiary undertaking	*8*	11	-	-
Gain on partial indirect disposal of share of associated undertaking		-	-	76
Net investment income / (expense)	*9*	-	(42)	(48)
Share of post-tax profit of associated undertaking	*6*	259	611	798
After:				
Share of other (expenses) / income of associated undertaking	*6*	(19)	371	305
Profit before taxation		593	768	1 311
Taxation	*11*	(64)	(41)	(97)
Net profit		529	727	1 214
Attributable to:				
Unitholders		529	727	1 212
Minority interest		-	-	2
		529	727	1 214
Earnings per unit for profit attributable to Unitholders during the period (expressed in € per unit)				
- basic	*10*	0.959	1.330	2.212
- diluted	*10*	0.942	1.315	2.185

The notes on pages 7 to 33 are an integral part of these consolidated interim financial statements.

Consolidated statements of changes in equity

	Equity attributable to Unitholders						Minority interest	Total equity
	Share capital	Participation reserve	Treasury units	Fair value and other reserves	Cumulative translation adjustment reserve	Retained earnings		
	€ m	€ m	€ m	€ m	€ m	€ m	€ m	€ m
Balance at 31 March 2004	334	645	(590)	44	-	4 605	4	5 042
Currency translation adjustments	-	-	-	-	(34)	-	-	(34)
Transfer of hedge reserve on settlement of net investment hedge	-	-	-	(28)	28	-	-	-
Cash flow hedges - net losses	-	-	-	(2)	-	-	-	(2)
Net share of BAT equity movements	-	-	-	-	-	189	-	189
Net income / (expense) recognised directly in equity	-	-	-	(30)	(6)	189	-	153
Net profit	-	-	-	-	-	727	-	727
Total recognised income / (expense)	-	-	-	(30)	(6)	916	-	880
Net sale of treasury units	-	-	21	-	-	(10)	-	11
Employee unit option scheme	-	-	-	16	-	-	-	16
Dividends paid	-	-	-	-	-	(219)	-	(219)
Balance at 30 September 2004	334	645	(569)	30	(6)	5 292	4	5 730
Currency translation adjustments	-	-	-	-	25	-	-	25
Cash flow hedges:								
- net gains	-	-	-	26	-	-	-	26
- transfer to income statement	-	-	-	(12)	-	-	-	(12)
Net share of BAT equity movements	-	-	-	-	-	(35)	-	(35)
Net income / (expense) recognised directly in equity	-	-	-	14	25	(35)	-	4
Net profit	-	-	-	-	-	485	2	487
Total recognised income	-	-	-	14	25	450	2	491
Net sale of treasury units	-	-	9	-	5	31	-	45
Employee unit option scheme	-	-	-	15	-	-	-	15
Balance at 31 March 2005	**334**	**645**	**(560)**	**59**	**24**	**5 773**	**6**	**6 281**
Adoption of IAS 32 and IAS 39	-	-	-	5	-	(5)	-	-
Balance at 1 April 2005	334	645	(560)	64	24	5 768	6	6 281
Currency translation adjustments	-	-	-	-	20	-	-	20
Cash flow hedges:								
- net losses	-	-	-	(26)	-	-	-	(26)
- transfer to income statement	-	-	-	(8)	-	-	-	(8)
Net share of BAT equity movements	-	-	-	-	-	(16)	-	(16)
Net income / (expense) recognised directly in equity	-	-	-	(34)	20	(16)	-	(30)
Net profit	-	-	-	-	-	529	-	529
Total recognised income / (expense)	-	-	-	(34)	20	513	-	499
Net sale of treasury units	-	-	89	-	-	(37)	-	52
Employee unit option scheme	-	-	-	17	-	-	-	17
Dividends paid	-	-	-	-	-	(553)	-	(553)
Balance at 30 September 2005	**334**	**645**	**(471)**	**47**	**44**	**5 691**	**6**	**6 296**

The notes on pages 7 to 33 are an integral part of these consolidated interim financial statements.

Consolidated cash flow statements

	Notes	Six months to 30 September 2005 € m	Six months to 30 September 2004 € m	Year to 31 March 2005 € m
Cash flows from operating activities				
Cash generated from operations	12	175	105	481
Interest income		18	44	57
Interest paid		(9)	(9)	(20)
Dividends from associated undertaking		247	239	235
Income tax paid		(39)	(43)	(79)
Net cash generated from operating activities		392	336	674
Cash flows from investing activities				
Acquisition of subsidiary undertakings, net of cash acquired		(4)	-	(1)
Proceeds from disposal of subsidiary undertakings	8	15	-	-
Acquisition of property, plant and equipment		(97)	(55)	(160)
Proceeds from disposal of property, plant & equipment		3	15	41
Acquisition of intangible assets		(1)	(1)	(8)
Proceeds from disposal of shares in associated undertaking		-	828	828
Proceeds from the partial indirect disposal of effective interest in BAT		-	-	179
Acquisition of other non-current assets		(26)	(8)	(23)
Proceeds from disposal of other non-current assets		11	11	19
Net cash (used in)/ generated from investing activities		(99)	790	875
Cash flows from financing activities				
Net repayment of borrowings		(67)	(135)	(223)
Dividends paid		(553)	(157)	(219)
Acquisition of treasury units		-	(25)	(25)
Proceeds from sale of treasury units		52	25	69
Capital element of finance lease payments		(1)	-	(4)
Net cash used in financing activities		(569)	(292)	(402)
Net (decrease)/increase in cash and cash equivalents		(276)	834	1 147
Cash and cash equivalents at beginning of period		1 183	6	6
Exchange (losses)/gains on cash and cash equivalents		(4)	22	30
Cash and cash equivalents at end of period		903	862	1 183

The notes on pages 7 to 33 are an integral part of these consolidated interim financial statements.

Notes to the consolidated interim financial statements 30 September 2005

1. General Information

Compagnie Financière Richemont SA ('the Company') and its subsidiaries (together 'Richemont' or 'the Group') is one of the world's leading luxury goods groups. The Group's luxury goods interests encompass several of the most prestigious names in the industry including Cartier, Van Cleef & Arpels, Piaget, Vacheron Constantin, Jaeger-LeCoultre, IWC, A. Lange & Söhne, Officine Panerai, Baume & Mercier, Alfred Dunhill, Montblanc and Lancel. In addition to its luxury goods businesses, the Group holds a significant investment in British American Tobacco ('BAT') – one of the world's leading tobacco groups.

The Company has its registered office in Geneva, Switzerland. Shares of the Company are indivisibly twinned with participation certificates issued by its wholly-owned subsidiary, Richemont SA, to form Richemont units. Richemont units are listed on the Swiss Stock Exchange and traded on the virt-x market and are included in the Swiss Market Index ('SMI') of leading stocks. Depository receipts in respect of Richemont units are traded on the JSE Limited (the Johannesburg Stock Exchange).

2. Summary of significant accounting policies

2.1. Basis of preparation

These consolidated interim financial statements of the Company are for the six-month period ended 30 September 2005 and are abridged and unaudited. They have been prepared in accordance with those International Financial Reporting Standards ('IFRS') that are expected to be issued and effective at 31 March 2006.

IFRS are subject to possible amendment by and interpretative guidance from the International Accounting Standards Board and the International Financial Reporting Interpretation Committee ('IFRIC'), and are therefore still subject to change. These figures may therefore require amendment to change the basis of accounting and/or presentation of certain financial information before their inclusion in the consolidated financial statements for the year ending 31 March 2006, in respect of which the Company prepares its first complete set of consolidated financial statements in accordance with IFRS.

The policies set out below have been consistently applied to all the periods presented.

The Company's consolidated financial statements were prepared in accordance with Swiss generally accepted accounting principles ('Swiss GAAP ARR') until 31 March 2005. Swiss GAAP ARR differs in some areas from IFRS. In preparing the Company's consolidated interim financial statements, management has amended certain accounting, valuation and consolidation methods applied in the Swiss GAAP ARR consolidated financial statements to comply with IFRS.

Reconciliations and descriptions of the effect of the transition from Swiss GAAP ARR to IFRS on the Group's equity and its net income and cash flows are provided in note 16 to the consolidated interim financial statements.

These consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of interim financial statements in accordance with International Accounting Standard ('IAS') 34 *Interim Financial Reporting* requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in note 4.

2.2. Basis of consolidation

The consolidated interim financial statements include the accounts of the Company and its subsidiary undertakings together with the Group's share of the results and retained post-acquisition reserves of associated undertakings and joint ventures.

The attributable results of subsidiary undertakings, associated undertakings and joint ventures are included in the consolidated interim financial statements from their dates of acquisition. Results are de-consolidated from their dates of disposal.
Accounting policies have been changed where necessary to ensure consistency within the Group.

Subsidiary undertakings are defined as those undertakings that are controlled by the Group. Control of an undertaking most commonly exists when the Company holds, directly or indirectly through other subsidiary undertakings, more than 50 per cent of the ordinary share capital and voting rights of the undertaking. The interim accounts of subsidiary undertakings are drawn up to 30 September, all subsidiaries having a coterminous year end with the Group. In consolidating the interim financial statements of subsidiary undertakings, intra-Group transactions, balances and unrealised gains and losses are eliminated.

Associated undertakings are defined as those undertakings, not classified as subsidiary undertakings, where the Group is able to exercise a significant influence. Associated undertakings are accounted for under the equity method. The Group's share of the results and attributable net assets of the associated undertaking is derived from interim accounts drawn up at 30 September 2005.

Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertaking. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group recognises its share of transactions booked by associated undertakings direct in equity, as equity movements.

Joint ventures are enterprises that are jointly controlled by the Group and one or more other parties in accordance with contractual arrangements between the parties. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Group includes its share of the joint ventures' income and expenses, assets and liabilities and cash flows in the relevant components of the consolidated interim financial statements.

2.3. Segment reporting

Details on the Group segments can be found under note 5. The Group uses business segments as the primary segments while geographical segments are considered secondary.

2.4. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated interim financial statements are presented in Euros, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rates prevailing during the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied as explained in note 3.2.

(c) Subsidiary and associated undertakings

The results and financial position of all group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates; and
(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment reserve).

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to Unitholders' equity on consolidation. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5. Property, plant and equipment

All property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. 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 Group and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, up to the limits of, as follows:

- Freehold buildings 50 years
- Plant and machinery 20 years
- Fixtures, fittings, tools & equipment 15 years

Freehold land and assets under construction are not depreciated.

The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.6. Intangible assets

(a) Goodwill

Goodwill in respect of subsidiaries is included in intangible assets. In respect of associated undertakings, goodwill is included in the carrying value of the investment in the associated company.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The cash-generating units represent the Group's investments in assets grouped at the lowest levels for which there are separately identifiable cash flows.

(b) Computer software and related licenses

Costs that are directly associated with developing, implementing or improving identifiable software products having an expected benefit beyond one year are recognised as intangible assets and amortised using the straight line method over their useful lives, not exceeding a period of five years. Costs associated with evaluating or maintaining computer software are expensed as incurred.

(c) Research and development, patents and trademarks

Research expenditures are recognised as expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit.

(d) Leasehold rights and key money

Premiums paid to parties other than the lessor at the inception of operating leases for leasehold buildings are capitalised and amortised over their expected useful lives or, if shorter, the lease period.

2.7. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Group has identified goodwill as its only asset with an indefinite life.

All other fixed and financial assets are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be fully recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell, and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8. Other investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading. Assets in this category are classified as current if they are either held for trading or are expected to be realised within the next 12 months.

Purchases and sales of these financial assets are recognised on the transaction date. They are initially recognised at cost. Fair value adjustments are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or if the asset comprises unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets held with no intention of trading and which have fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months, which are classified as non-current assets. Loans and receivables are included in trade and other receivables and other non-current assets in the balance sheet.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the intention and ability to hold to maturity. The Group did not hold any investments in this category during the period.

2.9. Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost is determined using either a weighted average basis, specific identification or the 'first-in, first-out' (FIFO) method depending on the nature of the inventory. The cost of finished goods and work in progress comprises raw materials, direct labour, related production overheads and, where applicable, duties and taxes. It excludes borrowing costs.

2.10. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11. Cash and cash equivalents

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

2.12. Equity

(a) Share capital and participation reserve

Shares issued by the Company and twinned with participation certificates issued by its wholly-owned subsidiary, Richemont SA, Luxembourg, to form Richemont units, are classified as capital and reserves attributable to Unitholders.

(b) Treasury units

The consideration paid by the Group on the acquisition of treasury units, including any directly attributable incremental costs (net of income tax) is deducted from capital and reserves attributable to Unitholders. On the sale or disposal of such treasury units, any consideration received, net of directly attributable incremental costs (net of income tax) is included in capital and reserves attributable to Unitholders' equity.

2.13. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities if such borrowings are to be settled within the next 12 months.

2.14. Deferred income tax

Deferred income tax is provided using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated interim financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the Group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

2.15. Employee benefits

(a) Pensions obligations

The Group operates a number of defined benefit and defined obligation plans throughout the world. The schemes are generally funded through payments to trustee-administered funds by both employees and relevant Group companies taking into account periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligations are calculated annually on a cyclical basis by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity similar to the terms of the related pension liability.

Past-service costs are recognised immediately in 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.

Actuarial gains and losses outside of a 10 per cent corridor are spread forward over the average remaining service lives of employees.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has communicated the termination of employment of current employees according to a detailed formal plan.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(d) Share-based payments

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the remaining vesting period.

2.16. Provisions

Provisions for restructuring costs, legal claims and other liabilities are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

2.17. Revenue recognition

(a) Goods and services

Sales revenue comprises the fair value of the sale of goods and services, net of value-added tax, duties, other sales taxes, rebates and trade discounts and after eliminating sales within the Group. Revenue is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(c) Royalty income

Royalty income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18. Leases

(a) Operating leases

Payments made under operating leases (net of any incentives received) are charged to the income statement on a straight line basis over the lease term. Sub-lease income (net of any incentives given) is credited to the income statement on a straight line basis over the sub-lease term.

(b) Finance leases

At commencement of the lease term, assets and liabilities are recognised at the lower of the present value of future minimum lease payments or fair value of the leased item. Property, plant and equipment recognised are depreciated over the shorter of their expected useful lives or the lease term.

In cases where land and buildings are acquired under finance leases the separate value of the land and the buildings are split.

2.19. Dividend distribution

Dividend distribution to the Richemont Unitholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the shareholders of the Company and of Richemont SA.

2.20. Interim measurement note - taxation

Taxation is recognised in each interim period based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

2.21. New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. It is not expected that these standards or interpretations will have a material effect on the Group's consolidated financial statements.

3. Financial risk management

3.1. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, HK dollar and Yen. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Entities in the Group use forward contracts to manage their foreign exchange risk arising from recognised assets and liabilities. Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

External foreign exchange contracts are designated at Group level as hedges of foreign exchange risk on specific assets, liabilities or future transactions on a gross basis.

The Group's risk management policy is to hedge up to 70% of anticipated net transactions (mainly export sales) in US dollar, HK dollar and Yen for the subsequent 12 months. Approximately 90% (2004: 95%) of projected sales in each major currency qualify as 'highly probable' forecast transactions for hedge accounting purposes.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held and classified on the consolidated balance sheet as financial assets held at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The Group raises long-term borrowings at floating rates and swaps them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

3.2. Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedge); or hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement on disposal of the foreign operation.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3.3. Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements applied by management 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 at the balance sheet dates.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Other major areas of judgment in the Group are as follows:

(a) The Group holds an 18.5 % effective interest in BAT. The Group has joint control of an entity holding 28.7 % of BAT and this joint venture has the power to exert significant influence over BAT, including representation on the Board of Directors. Thus, Richemont considers the investment in BAT to be an associated undertaking.

(b) In calculating the fair value of the services provided by employees under the Group's unit option scheme, management have estimated the historic volatility for the June 2005 grant to be 35 % to 37 %.

(c) In valuing defined benefit post retirement plans the Group has to make various assumptions. These are set out in note 7.

(d) For pension accounting the Group does not account for over funding of defined benefit plans as assets. Various stipulations within the pension agreements as well as historic actions support this treatment.

(e) The Group regards key money as having a finite useful life. As a consequence key money is amortised over its estimated useful life and tested for impairment only if indications of impairment exist.

(f) For setting up inventory provisions assumptions are made based on most recent historic evidence. This does not, however, preclude having to make predictions regarding the future at times.

(g) For testing assets for impairment and in the case of liabilities or assets which need to be discounted, the Group calculates the weighted average cost of capital and applies this rate as a discount rate.

5. Segment information

A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. The Group has opted to use business segments as the primary segments.

A geographical segment is engaged in providing products within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The Group uses geographical segments as secondary segments.

(a) Primary reporting format – business segments

For the purposes of clarity and comparability of external reporting, the Group combines internal management units with similar risk and reward profiles into business operating segments, which are constituted as follows:

- Jewellery Maisons - brands whose heritage is in the design, manufacture and distribution of jewellery products and incorporates Cartier, and Van Cleef and Arpels.
- Specialist Watchmakers – brands whose primary activity includes the design, manufacture and distribution of precision timepieces. The Group's specialist watchmakers comprise Jaeger-LeCoultre, Baume & Mercier, IWC, Vacheron Constantin, A. Lange & Söhne, Piaget and Panerai.
- Writing Instrument manufacturers - brands whose primary activity includes the design, manufacture and distribution of writing instruments. These comprise Montblanc together with Montegrappa.
- Leather and Accessories Maisons – brands whose activities include the design and distribution of primarily leather goods and other accessories, and incorporates Alfred Dunhill and Lancel.

Other Group operations mainly comprise royalty income and other businesses. None of these constitutes a separately reportable segment.

Amounts included within the Unallocated category represent the Group's corporate operations which cannot meaningfully be attributed to the segments.

The entire product range of a particular Maison, which may include watches, writing instruments, jewellery and leather goods are reflected in the sales and operating result for that segment.

Segment assets consist primarily of property, plant and equipment, inventories, trade and other debtors and non-current assets. Segment liabilities comprise operating liabilities, including provisions, but excluding bank overdrafts, short and long-term loans.

Inter segment transactions are transacted at prices that reflect the risk and rewards transferred and are entered into under normal commercial terms and conditions.

The segment results for the six months ended 30 September 2005 and 30 September 2004 are as follows.

	External sales		Inter segment sales		Total segment sales	
	2005	2004	2005	2004	2005	2004
Sales:	€m	€m	€m	€m	€m	€m
Jewellery Maisons	1 038	914	4	-	1 042	914
Specialist Watchmakers	522	424	4	-	526	424
Writing Instrument Manufacturers	208	184	2	-	210	184
Leather & Accessories Maisons	124	116	-	-	124	116
Other Businesses	98	80	66	25	164	105
Unallocated	-	-	-	-	-	-
Group	1 990	1 718	76	25	2 066	1 743

	Segment result	
	2005	2004
Segment result:	€m	€m
Jewellery Maisons	283	213
Specialist Watchmakers	118	72
Writing Instrument Manufacturers	28	17
Leather & Accessories Maisons	(26)	(25)
Other Businesses	(2)	(1)
Unallocated	(67)	(77)
Operating profit	334	199
Net investment expense	-	(42)
Operating profit before share of results of associated undertaking	334	157
Share of post-tax profit of associated undertaking	259	611
Share of other (expenses) / income of associated undertaking	(19)	371
Profit before taxation	593	768
Taxation	(64)	(41)
Net Profit	529	727

The net segment assets for the six months ended 30 September 2005 and 30 September 2004 are as follows.

	Segment assets		Segment liabilities		Net segment assets	
	2005	2004	2005	2004	2005	2004
Net segment assets:	€m	€m	€m	€m	€m	€m
Jewellery Maisons	1 605	1 396	(211)	(167)	1 394	1 229
Specialist Watchmakers	808	748	(83)	(81)	725	667
Writing Instrument Manufacturers	314	315	(66)	(62)	248	253
Leather & Accessories Maisons	164	140	(49)	(41)	115	99
Other Businesses	127	113	(60)	(37)	67	76
Unallocated	422	376	(249)	(306)	173	70
Group	3 440	3 088	(718)	(694)	2 722	2 394
Investment in associated undertaking					3 240	3 144
Cash less overdraft					903	862
Borrowings					(519)	(658)
Pension obligations					(101)	(115)
Taxation					51	101
Net assets					6 296	5 728

Items related to:	Capital expenditure - gross		Depreciation / amortisation		Impairment charge/(release)	
Property plant and equipment	2005	2004	2005	2004	2005	2004
and Intangible assets:	€m	€m	€m	€m	€m	€m
Jewellery Maisons	38	19	23	23	-	(2)
Specialist Watchmakers	13	14	11	9	-	-
Writing Instrument Manufacturers	7	6	9	9	-	-
Leather & Accessories Maisons	5	4	3	4	-	-
Other Businesses	6	2	3	4	-	-
Unallocated	29	11	14	17	-	-
Group	98	56	63	66	-	(2)

	Provision increase		Share option costs	
	2005	2004	2005	2004
Other non cash items:	€m	€m	€m	€m
Jewellery Maisons	11	7	3	2
Specialist Watchmakers	3	16	2	2
Writing Instrument Manufacturers	1	5	1	1
Leather & Accessories Maisons	1	5	1	1
Other Businesses	14	3	-	-
Unallocated	4	-	10	10
Group	34	36	17	16

(b) Secondary reporting format – geographical segments

The Group's business segments operate in three main geographical areas.

Sales, segment assets and capital expenditures are as follows for the six months ended 30 September:

	Sales		Segment Assets		Capital Expenditures	
	2005	2004	2005	2004	2005	2004
	€m	€m	€m	€m	€m	€m
Europe	827	724	2 335	1 959	66	37
France	192	171	429	411	17	7
Switzerland	94	81	1 228	812	37	23
Other Europe	541	472	678	736	12	7
Asia	753	654	648	695	20	10
Hong Kong	172	146	163	187	3	2
Japan	331	297	332	363	8	3
Other Asia	250	211	153	145	9	5
America	410	340	457	434	12	9
USA	317	267	374	359	11	8
Other America	93	73	83	75	1	1
	1 990	1 718	3 440	3 088	98	56

Retail sales are allocated based on the country in which the boutique is located. Wholesale sales are allocated based on the country in which the customer is located. Total assets and capital expenditure are based on where the assets are located.

6. Investment in associated undertaking

	€ m
At 1 April 2004	2 666
Exchange differences	(66)
Share of net profit after minority interests	798
Dividends received	(235)
Indirect disposal of effective interest	(99)
Other equity movements	154
At 31 March 2005	3 218
Exchange differences	26
Share of net profit after minority interests	259
Dividends received	(247)
Other equity movements	(16)
At 30 September 2005	3 240

Investment in associated undertaking at 30 September 2005 includes goodwill of € 2 568 million (March 2005: € 2 547 million).

The summarised financial information of the Group's principal associated undertaking is as follows:

	30 September 2005	30 September 2004
	€ m	€ m
Operating profit	378	389
Share of post-tax profit of BATs associated undertakings	50	26
Share of other (expenses) / income	(19)	371
Net interest expense	(29)	(45)
Profit before taxation	380	741
Taxation	(103)	(109)
Profit after taxation	277	632
Minority interests	(18)	(21)
Share of results of associated undertaking	259	611

Richemont accounts for its effective interest in BAT under the equity method. Changes in the Group's percentage holding of BAT during the year ended 31 March 2005 reflect the conversion of the BAT preference shares into ordinary shares on 28 May 2004, the indirect sale by the Group of BAT shares to its joint venture partner Remgro in February 2005 and the share buy back programme carried out by BAT during the year. The following table indicates the percentages applied to BAT's profits:

For the year ended 31 March 2005:

	%
1 April 2004 to 31 May 2004	19.7
1 June 2004 to 30 September 2004	18.7
1 October 2004 to 31 December 2004	18.8
1 January 2005 to 28 February 2005	18.8
1 March 2005 to 31 March 2005	18.3

For the six-month period to 30 September 2005:

1 April 2005 to 30 June 2005	18.4
1 July 2005 to 30 September 2005	18.5

7. Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution retirement arrangements. The major plans are the arrangements in Switzerland, the United Kingdom (UK) and Germany.

The principal actuarial assumptions used at 31 March 2005 for accounting purposes reflected prevailing market conditions in each of the countries in which the Group operates and were as follows:

	2004/2005 cost	End-of-year benefit obligation	Weighted average
Discount rate	1.7% to 5.8%	1.5% to 5.5%	4.1%
Expected return on plan assets	2.0% to 6.6%	2.0% to 6.5%	4.8%
Future salary increases	1.5% to 4.9%	1.5% to 4.9%	3.0%
Future pension increases	2.0% to 2.6%	2.2% to 2.7%	2.6%

Assumptions used to determine the benefit expense and the end-of-year benefit obligations for the defined benefit plans varied within the ranges shown above. The weighted average rate for each assumption used to measure the benefit obligation is also shown. The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

In Switzerland, the benefits provided are essentially defined contribution in nature, with the Group's annual contribution being a fixed percentage of salary. The plans are funded by foundations, which hold assets separately to the Group. Under IAS 19 *Employee Benefits,* the Group's Swiss pension scheme qualifies as a defined benefit scheme. Under Swiss GAAP ARR the scheme was treated as a defined contribution scheme. This change did not impact the pension liability as at September 2005 nor the pension charge for the year ended 31 March 2005. In respect of the main Swiss pension foundation the amount recognised in the consolidated interim income statements are equal to the Group's contributions.

In the UK, benefits are related to service and final salary. The plan is funded by a separate trust, with a funding target to maintain assets equal to the value of the accrued benefits based on projected salaries.

In Germany, retirement benefits are related to service and final salary. Since no external pre-financing exists, the liabilities are recognised within the balance sheets of the relevant companies, in line with local practice.

Benefits under arrangements other than those detailed above are generally related to service and either salary or grade. They are funded in all locations where this is consistent with local practice, otherwise the liability is recognised in the balance sheet.

The Group does not have any significant liabilities in respect of any other post-retirement benefits, including post-retirement healthcare liabilities.

8. Other operating (expenses) / income

Included in other operating (expenses) / income are royalties received of € 7 million (2004: € 7 million) and a gain from the sale of Hackett, a subsidiary undertaking, of € 11 million after receiving consideration of € 15 million. No significant impact is expected on the Group's future results as a result of this transaction.

9. Net investment income / (expense)

	30 September 2005 € m	30 September 2004 € m
Interest expense:		
- bank borrowings	(10)	(7)
Interest income:		
- other	16	8
Fair value gains on financial instruments	-	2
Foreign exchange gains/(losses)		
- on monetary items	14	(43)
- on hedged derivatives	(7)	1
- on other derivatives	(13)	(3)
	-	(42)

Foreign exchange gains of € 8 million (2004: € - million) were reflected in cost of sales during the period.

10. Earnings per unit

10.1. Basic

Basic earnings per unit is calculated by dividing the profit attributable to Unitholders by the weighted average number of units in issue during the period, excluding units purchased by the Company and held in treasury.

	30 September 2005	30 September 2004
Profit attributable to unitholders of the Company (€ millions)	529	727
Weighted average number of units in issue (millions)	551.8	546.5
Basic earnings per unit (€ per unit)	0.959	1.330

10.2. Diluted

Diluted earnings per unit is calculated adjusting the weighted average number of units outstanding to assume conversion of all dilutive potential units. The Company has only one category of dilutive potential units: unit options.

The calculation is performed for the unit options to determine the number of units that could have been acquired at fair value (determined as the average annual market unit price of the Company's units) based on the monetary value of the subscription rights attached to outstanding unit options. The number of units calculated as above is compared with the number of units that would have been issued assuming the exercise of the unit options.

	30 September 2005	30 September 2004
Profit attributable to unitholders of the Company (€ millions)	529	727
Weighted average number of units in issue (millions)	551.8	546.5
Adjustment for unit options (millions)	9.8	6.4
Weighted average number of units for diluted earnings per unit (millions)	561.6	552.9
Diluted earnings per unit (€ per unit)	0.942	1.315

11. Taxation

The average effective tax rate is calculated in respect of profit before taxation but excluding the share of post-tax profit of the associated undertaking. The rates for the periods ended 30 September 2005 and 2004 were 19.2 % and 26.1 % respectively. The higher rate in the comparative period was principally the result of non-deductible foreign exchange losses.

12. Cash generated from operations

	30 September 2005	30 September 2004
	€ m	€ m
Operating profit	334	199
Depreciation of property, plant and equipment	57	59
Amortisation of intangible assets	6	7
Profit on disposal of property, plant and equipment	(1)	(3)
Increase/(decrease) in provisions	8	(1)
Increase in retirement benefit obligations	4	3
Movement in non-current asset provision	2	-
Non cash items	6	9
Increase in inventories	(120)	(90)
Increase in trade debtors	(157)	(102)
(Increase)/decrease in other receivables, prepayments and accrued income	(12)	10
Increase in current liabilities	48	14
Cash flow from operating activities	175	105

13. Related-party transactions

Compagnie Financière Rupert, Geneva holds 522 million "B" registered shares, representing 50 per cent of the voting rights in Compagnie Financière Richemont SA. In addition, Compagnie Financière Rupert has advised that parties related to it hold or control 4.7 million "A" bearer shares in Compagnie Financière Richemont SA, representing 0.45 per cent of the voting rights of the company.

The Group has a number of 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.

Besides the Board of Directors of both Compagnie Financière Richemont SA and Richemont SA, the Group has identified the following other related parties:

- British American Tobacco plc
- the Remgro Group
- Richemont Foundations (employee and others)

Full details of the related party transactions will be included in the Annual Report.

14. Share-based payments

Unit option plan

The Group has a long-term unit-based compensation scheme whereby executives are awarded options to acquire units at a predetermined price. Awards under the stock option plan vest over periods of three to six years and have expiry dates, the date after which unexercised options lapse, of between 5 and 10 years from the date of grant. During the period ended 30 September 2005, awards of 4 455 100 options were granted at a weighted average exercise price of SFr 41.25 per unit. Options in respect of 3 498 827 units were exercised during the period at an average exercise price of SFr 24.37 per unit.

15. Joint ventures

The Group has the following interests in joint ventures:

- A 66.7 % interest in R&R Holdings SA, a Luxembourg holding company that holds the tobacco interests of Richemont and Remgro Limited.
- A 50 % interest in Laureus World Sports Awards ('LWSA'), a company registered in the UK which honours the achievements of the world's greatest sportsmen and women on an annual basis and contributes to social change through the Laureus Sport for Good Foundation. The Group's partner in LWSA is Daimler Chrysler AG.

R&R Holding SA is accounted for as a joint venture according to contractual arrangements between the Group and its joint venture counterparty.

16. Transition to IFRS

16.1. Basis of transition to IFRS

The Group's financial statements for the year ending 31 March 2006 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared as described in note 2. The Group has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these consolidated interim financial statements and has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

The Group previously classified its shares in unlisted investments within the "available for sale assets" category. However, upon initial recognition, any asset or liability can be designated as "held at fair value through the profit or loss". IFRS 1 gives the option to make such a designation on transition. Future investments would be designated on recognition.

16.2. Reconciliation of consolidated balance sheet presented in accordance with Swiss GAAP ARR and IFRS – 1 April 2004

ASSETS	Notes	Swiss GAAP ARR €m	Adjustments €m	IFRS €m
Non-current assets				
Property, plant and equipment		684	-	684
Intangible assets		59	-	59
Investment in associated undertaking	*16.2(a)*	2 454	212	2 666
Deferred income tax assets	*16.2(b)*	187	44	231
Financial assets held at fair value through profit or loss		-	-	-
Other non-current assets		194	-	194
		3 578	256	3 834
Current assets				
Inventories		1 402	-	1 402
Trade and other receivables	*16.2(a)*	1 706	(163)	1 543
Derivative financial instruments		23	-	23
Prepayments and accrued income		106	-	106
Bank and cash		186	-	186
		3 423	(163)	3 260
Total assets		7 001	93	7 094
EQUITY AND LIABILITIES				
Equity				
Share capital		334	-	334
Participation reserve		645	-	645
Treasury units		(590)	-	(590)
Fair value and other reserves	*16.2(e)*	26	18	44
Cumulative translation adjustment reserve	*16.2(f)*	(151)	151	-
Retained earnings	*16.2(g)*	4 704	(99)	4 605
Total Unitholders' equity		4 968	70	5 038
Minority interest		4	-	4
Total equity		4 972	70	5 042
LIABILITIES				
Non-current liabilities				
Borrowings		64	-	64
Deferred income tax liabilities		36	-	36
Retirement benefit obligations	*16.2(c)*	89	23	112
Provisions		46	-	46
		235	23	258
Current liabilities				
Trade and other payables		343	-	343
Current income tax liabilities		97	-	97
Borrowings		359	-	359
Derivative financial instruments		189	-	189
Provisions		79	-	79
Accruals and deferred income		170	-	170
Short-term loans	*16.2(d)*	557	(180)	377
Bank overdrafts	*16.2(d)*	-	180	180
		1 794	-	1 794
Total liabilities		2 029	23	2 052
Total equity and liabilities		7 001	93	7 094

(a) Investment in associated undertaking – BAT

BAT has adopted IFRS from UK Generally Accepted Accounting Principles ('UK GAAP'). The Group's share of these transition adjustments amounted to an increase in the Group's investment of € 49 million at 1 April 2004. In addition, the Group has reclassified a portion of Group's investment previously reported in trade and other receivables to investment in associated undertaking. This amounted to € 163 million at 1 April 2004 and € 166 million at 1 April 2005.

With respect to the Group's investment at 31 March 2005, the following remeasurements have been required:

	€ m
The reversal of previously amortised goodwill during the year	222
The Group's share of BAT's own transition adjustments from UK GAAP to IFRS, excluding the goodwill reversal above	82
Other IFRS transition-related adjustments relating to the investment and transactions which occurred during the year, net	2
Reclassification from trade and other receivables	166
	472

(b) Deferred income tax assets and income tax expense

The application of IAS 12 *Income Taxes* requires a remeasurement of deferred income tax on the unrealised profit arising on intra-Group transfers of inventory. This results in an increase of € 44 million in deferred income tax assets at 1 April 2004 and an increase of € 39 million at 1 April 2005 from previously reported amounts.

The result of the difference between the deferred income tax asset adjustments between 1 April 2005 and 1 April 2004 is additional deferred income tax expense for the year ended 31 March 2005 of € 5 million.

(c) Retirement benefit obligations and pension expense (administration expenses)

The Group has used the exemption available under IFRS 1 to recognise a previously unrecognised net actuarial deficit relating to retirement benefit obligations. This results in an increase to previously reported amounts of €23 million at 1 April 2004 and € 22 million at 1 April 2005.

The result of the difference between the retirement benefit obligation adjustments between 1 April 2005 and 1 April 2004 is a reduction of administrative expense for the year ended 31 March 2005 of € 1 million.

(d) Bank overdrafts and short-term loans

In accordance with IAS 7 *Cash Flow Statement*, the Group has reclassified short-term loans from bank overdrafts to short-term loans. These reclassifications amounted to € 180 million at 1 April 2004 and € 226 million at 1 April 2005.

(e) Fair value and other reserves

The Group has retrospectively applied IFRS 2 *Share-based Payment* for unit options granted after 7 November 2002 and still unvested at 1 January 2005. The application date of this standard was 1 April 2005. This results in an increase in unit option reserves within equity of € 18 million at 1 April 2004 with a corresponding decrease in retained earnings.

In the year ended 31 March 2005 administrative expenses increased by € 31 million in respect of unit option costs with the corresponding increase unit option reserve, giving a balance on this reserve at 31 March 2005 of € 49 million.

(f) Cumulative translation adjustment ('CTA') reserve

The Group has used the exemption available under IFRS 1 to set the CTA reserve to zero at 1 April 2004. This increase of € 151 million to CTA reserves is offset by a corresponding reduction to retained earnings at 1 April 2004.

(g) Retained earnings

A reconciliation of retained earnings between Swiss GAAP ARR and IFRS at 1 April 2004 is as follows:

	€ m
Retained earnings under Swiss GAAP ARR, 1 April 2004	4 704
Investment in associated undertaking - *note 16.2(a)*	49
Deferred income taxes assets - note *16.2(b)*	44
Retirement benefit obligations - *note 16.2(c)*	(23)
Fair value and other reserves - *note 16.2(e)*	(18)
CTA reserve - *note 16.2(f)*	(151)
	4 605

16.3. Reconciliation of consolidated balance sheet presented in accordance with Swiss GAAP ARR and IFRS – 1 April 2005

		Swiss GAAP ARR	Adjustments	IFRS
ASSETS	*Notes*	€ m	€ m	€ m
Non-current assets				
Property, plant and equipment		681	-	681
Intangible assets		52	-	52
Investment in associated undertaking	*16.2(a)*	2 746	472	3 218
Deferred income tax assets	*16.2(b)*	188	39	227
Financial assets held at fair value through profit or loss	*16.3(a)*	-	36	36
Other non-current assets	*16.3(a)*	189	(36)	153
		3 856	511	4 367
Current assets				
Inventories		1 522	-	1 522
Trade and other receivables	*16.2(a)*	686	(166)	520
Derivative financial instruments		15	-	15
Prepayments and accrued income		116	-	116
Bank and cash		1 409	-	1 409
		3 748	(166)	3 582
Total assets		7 604	345	7 949
EQUITY AND LIABILITIES				
Equity				
Share capital		334	-	334
Participation reserve		645	-	645
Treasury units		(560)	-	(560)
Fair value and other reserves	*16.2(e)*	10	49	59
Cumulative translation adjustment reserve	*16.3(b)*	(114)	138	24
Retained earnings	*16.3(c)*	5 637	136	5 773
Total Unitholders' equity		5 952	323	6 275
Minority interest		6	-	6
Total equity		5 958	323	6 281
LIABILITIES				
Non-current liabilities				
Borrowings		155	-	155
Deferred income taxes		34	-	34
Retirement benefit obligations	*16.2(c)*	75	22	97
Provisions		34	-	34
		298	22	320
Current liabilities				
Trade and other payables		352	-	352
Current income tax liabilities		120	-	120
Borrowings		4	-	4
Derivative financial instruments		3	-	3
Provisions		63	-	63
Accruals and deferred income		173	-	173
Short-term loans	*16.2(d)*	633	(226)	407
Bank overdrafts	*16.2(d)*	-	226	226
		1 348	-	1 348
Total liabilities		1 646	22	1 668
Total equity and liabilities		7 604	345	7 949

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

In accordance with IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement,* the Group has reclassified certain financial assets, previously recorded as other non-current assets, as held at fair value through profit or loss.

(b) CTA reserve

The Group has significant intra-Group financing arrangements in place. Following the adoption of IAS 21 Revised *The Effects of Changes in Foreign Exchange Rates,* the Group is required to recognise certain exchange gains and losses on intra-Group financing within the consolidated interim income statement. These exchange movements were previously recognised as cumulative translation adjustments within equity. As a consequence of the revised Standard, a net charge amounting to € 40 million has been recognised within net investment income / (expense) for the year ended 31 March 2005. This includes a foreign exchange gain of € 29 million and a foreign exchange loss of € 69 million, both relating to intra-Group financing.

A reconciliation of the movement in the CTA reserve at 1 April 2005 is as follows:

	€ m
IFRS 1 exemption applied 1 April 2004 - *note 16.2(f)*	151
Recognition of certain intra-Group exchange gains and losses	40
Other reserves reclassified to retained earnings	(53)
	138

(c) Retained earnings

A reconciliation of retained earnings between Swiss GAAP ARR and IFRS at 1 April 2005 is as follows:

	€ m
Retained earnings under Swiss GAAP ARR, 1 April 2005	5 637
Investment in associated undertaking - *note 16.2(a)*	306
Deferred income taxes assets - *note 16.2(b)*	39
Retirement benefit obligations - *note 16.2(c)*	(22)
Fair value and other reserves - *note 16.2(e)*	(49)
CTA reserve - *note 16.3(b)*	(138)
	5 773

16.4. Reconciliation of consolidated net profit between Swiss GAAP ARR and IFRS for six months ended 30 September 2004

	Notes	Swiss GAAP ARR €m	Adjustments €m	IFRS €m
Sales	*16.4(a)*	1 739	(21)	1 718
Cost of sales	*16.4(b)*	(625)	(45)	(670)
Gross profit		1 114	(66)	1 048
Selling and distribution expenses	*16.4(a)*	(435)	14	(421)
Communication expenses		(201)	-	(201)
Administrative expenses	*16.4(c)*	(270)	34	(236)
Other operating income	*16.4(d)*	-	9	9
Operating profit		208	(9)	199
Net investment income / (expense)	*16.4(e)*	3	(45)	(42)
Share of post-tax profit of associated undertaking	*16.4(f)*	408	203	611
After:				
Share of other income of associated undertaking		278	93	371
Profit before taxation		619	149	768
Taxation	*16.4(g)*	(38)	(3)	(41)
Net profit		581	146	727
Attributable to:				
Unitholders		581		727
Minority interest		-		-
		581		727

(a) Sales reclassifications

	Six months ended 30 September 2004 €m	Year ended 31 March 2005 €m
Sales-related discounts	(14)	(30)
Royalty income	(7)	(16)
	(21)	(46)

Volume- and other sales-related discounts previously recognised as selling and distribution expenses have been reclassified as deductions from sales in accordance with IAS 18 *Revenue*.

In addition, the Group has elected to reclassify royalty income previously reported as sales to other operating (expenses) / income. For comparative purposes, sales for the period ended 30 September 2004 and the year ended 31 March 2005 have been reduced by € 7 million and € 16 million, respectively, to conform with this change in presentation to be made in the current year. There is a corresponding increase in other operating (expenses) / income.

None of the adjustments to sales has a material effect on any business or geographic segment.

(b) Cost of sales

The Group has elected to reclassify product repair and directly related costs, previously reported as administrative expenses to cost of sales. For comparative purposes, the cost of sales for the period ended 30 September 2004 and year ended 31 March 2005 have been increased by € 45 million and € 90 million, respectively, to conform with this change in presentation to be made in the current year. There is a corresponding decrease in administrative expenses.

(c) Administrative expenses

As previously described under 16.2(e) above, the Group has adopted IFRS 2 *Share-based Payment* with effect from 1 April 2005 resulting in a restatement of opening equity as per 1 April 2004 and a retro-respective charge for the year ended 31

March 2005. The charge for the period ended 30 September 2004 amounted to € 16 million, and for the year ended 31 March 2005 amounted to € 31 million, with a corresponding credit to fair value and other reserves within equity.

The Group has elected to reclassify foreign exchange gains and losses arising on intra-Group monetary items from administrative expenses to a component of net investment income / (expense) to reflect operating results on an ongoing basis for the period ended 30 September 2004 and for the year ended 31 March 2005. For comparative purposes, administrative expenses for both periods have been decreased.

A reconciliation of administrative expenses between Swiss GAAP ARR and IFRS for the period ended 30 September 2004 and the year ended 31 March 2005 is as follows:

	Six months ended 30 September 2004 € m	Year ended 31 March 2005 € m
Share-based payments	(16)	(31)
Foreign exchange reclassification	7	10
Cost of sales reclassifications - *note 16.4(b)*	45	90
Miscellaneous other (expenses) / income reclassifications	(2)	12
Retirement benefit obligation expenses - *note 16.2(c)*	-	1
	34	82

(d) Other operating (expenses) / income

A reconciliation of other operating (expenses) / income between Swiss GAAP ARR and IFRS for the period ended 30 September 2004 is as follows:

	Six months ended 30 September 2004 € m
Miscellaneous other income reclassifications	2
Sales reclassifications - *note 16.4(a)*	7
	9

(e) Net investment income / (expense)

A net charge amounting to € 38 million has been recognised within net investment income / (expense) for the period ended 30 September 2004. This includes a foreign exchange gain of € 20 million and a foreign exchange loss of € 58 million, both relating to intra-Group financing. Under Swiss GAAP ARR the gains and losses were recognised directly in equity.

A reconciliation of net investment income / (expense) between Swiss GAAP ARR and IFRS for the period ended 30 September 2004 and the year ended 31 March 2005 is as follows:

	Six months ended 30 September 2004 € m	Year ended 31 March 2005 € m
Foreign exchange movements - *note 16.3(b)*	(38)	(40)
Foreign exchange reclassification - *note 16.4(c)*	(7)	(10)
	(45)	(50)

(f) Share of post-tax profit of associated undertaking

Goodwill amortisation charges of € 108 million have been reversed in accordance with IAS 38 *Intangible Assets.* In addition, the Group has recorded its share of all of its associate's other IFRS transition adjustments. These other adjustments amount to € 95 million, € 60 million of which relates to an adjustment to the exceptional gain on the sale of subsidiaries.

A reconciliation of the share of post-tax profit of associated undertaking between Swiss GAAP ARR and IFRS for the period ended 30 September 2004 and the year ended 31 March 2005 is as follows:

	Six months ended 30 September 2004 € m	Year ended 31 March 2005 € m
Non-amortisation of goodwill	108	222
Share of associate's exceptional gain on sale of subsidiaries adjustment	60	60
Share of associate's other IFRS adjustments	35	25
	203	307

(g) *Taxation*

As previously described above, the Group has applied IAS 12 with effect from 1 April 2004. The additional taxation charge for the period, for the movement of unrealised profit arising on intra-Group transfers of inventory, amounted to € 3 million, with a corresponding credit to net deferred income tax assets.

16.5. Reconciliation of net profit between Swiss GAAP ARR and IFRS for the year ended 31 March 2005:

		Swiss GAAP ARR	Adjustments	IFRS
	Notes	€ m	€ m	€ m
Sales	*16.4(a)*	3 717	(46)	3 671
Cost of sales	*16.4(b)*	(1 325)	(90)	(1 415)
Gross profit		2 392	(136)	2 256
Selling and distribution expenses	*16.4(a)*	(923)	30	(893)
Communication expenses		(414)	-	(414)
Administrative expenses	*16.4(c)*	(550)	82	(468)
Other operating income	*16.5(a)*	-	80	80
Operating profit		505	56	561
After:				
Gain on partial indirect disposal of share of associated undertaking		-	76	76
Net investment income / (expense)	*16.4(e)*	2	(50)	(48)
Share of post-tax profit of associated undertaking	*16.4(f)*	491	307	798
After:				
Share of other income of associated undertaking		245	60	305
Profit before taxation		998	313	1 311
Taxation	*16.2(b)*	(92)	(5)	(97)
Profit after taxation		906	308	1 214
Exceptional items	*16.5(a)*	81	(81)	-
Net profit		987	227	1 214
Attributable to:				
Unitholders		985		1 212
Minority interests		2		2
		987		1 214

(a) Other operating (expenses) / income

In accordance with IAS 1 *Presentation of Financial Statements,* the € 81 million gain on the indirect disposal of 0.6 per cent of the Group's effective interest in BAT, adjusted for IFRS reporting to € 76 million, has been reclassified from exceptional items to other operating (expenses) / income.

A reconciliation of other operating (expenses) / income between Swiss GAAP ARR and IFRS for the year ended 31 March 2005 is as follows:

	Year ended 31 March 2005 € m
Gain on partial indirect disposal of share of associated undertaking	76
Miscellaneous administrative expenses reclassifications - *note 16.4(c)*	(12)
Sales reclassifications - *note 16.4(a)*	16
	80

16.6. Reconciliation of equity between Swiss GAAP ARR and IFRS at 30 September 2004:

		Equity attributable to Unitholders						Minority interest	Total equity
	Notes	Share capital € m	Participation reserve € m	Treasury units € m	Fair value and other reserves € m	Cumulative translation adjustment reserve € m	Retained earnings € m	€ m	€ m
Balance at 30 September 2004 per Swiss GAAP ARR		334	645	(569)	-	(141)	5 206	4	5 479
IFRS adjustments:									
Cumulative translation adjustment:									
- opening IFRS adjustment	*16.2(f)*	-	-	-	-	151	(151)	-	-
- reclassification to income statement	*16.3(b)*	-	-	-	-	40	-	-	40
- transfers		-	-	-	(4)	4	-	-	-
Increase in net profit for the period due to IFRS restatements	*16.4*	-	-	-	-	(2)	146	-	144
Reversal of goodwill reinstated on disposal of subsidiaries by associated undertaking	*16.4(f)*	-	-	-	-	-	(60)	-	(60)
Adjustment to gain on partial disposal of associated undertaking and other equity movements		-	-	-	-		99	-	99
Retained earnings:									
- deferred income tax	*16.2(b)*	-	-	-	-	-	44	-	44
- retirement benefit obligations	*16.2(c)*	-	-	-	-	-	(23)	-	(23)
- investment in associated undertaking	*16.2(a)*	-	-	-	-	(58)	49	-	(9)
Employee unit option scheme:									
- unit option reserve opening adjustment	*16.2(e)*	-	-	-	18	-	(18)	-	-
- value of services provided to September 2004	*16.4(c)*	-	-	-	16	-	-	-	16
Balance at 30 September 2004 per IFRS		334	645	(569)	30	(6)	5 292	4	5 730