

*"The farther backward
you can look,
the farther forward
you are likely to see."*

Sir Winston Churchill

RICHMONT

Interim Report 2002

RICHEMONT

Richemont, the Swiss luxury goods group, announces its unaudited results for the six-month period ended 30 September 2002.

	<u>September 2002</u>	<u>September 2001</u>	
Sales	€ 1 784 m	€ 1 836 m	- 3 %
Operating profit	€ 185 m	€ 253 m	- 27 %
Attributable profit			
– parent and subsidiaries	€ 134 m	€ 165 m	- 19 %
– share of associated company	€ 270 m	€ 260 m	+ 4 %
– the Group	€ 404 m	€ 425 m	- 5 %
Earnings per unit – fully diluted basis	€ 0.716	€ 0.754	- 5 %

The results presented above exclude the effects of exceptional items reported by associated companies and goodwill amortisation from the results of both periods.

- Sales for the first six months declined by 3 per cent to € 1 784 million. Excluding the adverse effect of exchange rate movements, however, sales increased by 1 per cent.
 - Jewellery sales, being principally through Cartier and Van Cleef & Arpels, grew by 1 per cent in the period, whilst watch sales reported a decline of 3 per cent.
 - Sales in Europe declined by 4 per cent, reflecting depressed market conditions and the reduction in tourist traffic in the region. Sales in Asia declined by 3 per cent. However, at comparable rates of exchange, sales in Japan grew by 5 per cent; sales in the rest of the Asia region grew at a similar rate.
- In the Americas, sales increased by 10 per cent in dollar terms with strong performances by Cartier and Montblanc; on translation into euros, however, sales in the region grew by 2 per cent.
 - The decline in sales in euro terms, together with a slight weakening in the gross margin percentage and a 3 per cent increase in operating expenses, resulted in an overall decline in operating profit of 27 per cent.
 - The Group's equity accounted share of the results of its investment in British American Tobacco amounted to € 270 million, an increase of 4 per cent compared to the prior year.
 - Earnings per unit for the period on a fully diluted basis decreased by 5 per cent from € 0.754 to € 0.716.

EXECUTIVE CHAIRMAN'S COMMENTARY ON THE RESULTS

Richemont's results for the first six months of this financial year are in line with our expectations. The slowdown in sales – in particular in Europe – combined with the strengthening of the euro against both the dollar and the yen has contributed to the fall in operating profit for the period.

Sales in euros during the months of September and October have shown modest growth compared to the same period last year. It is, however, doubtful as to whether this represents a real pick-up in demand, as this must be viewed against the extremely depressed sales levels experienced during September and October 2001.

I would stress that we continue to view the outlook for the remainder of the current financial year with the utmost caution. We live in a period of chronic

uncertainty in terms of global events. Whilst I would expect that the rate of decline in operating profit for the year as a whole should be less than that experienced in the first six-month period, such a view is, of course, predicated upon there being no further deterioration in market sentiment as a consequence of events outside our control.

Johann Rupert

Executive Chairman

Compagnie Financière Richemont SA

14 November 2002

BUSINESS REVIEW

Sales and operating profit

During the period under review, the Group's results were influenced by the continuing weakness of the economic environment generally and the decline in tourism, in particular. In addition, the appreciation of the euro in the first six months of the financial year has

had a dampening effect on reported sales for the period, which showed a decline of 3 per cent compared to the prior year. At constant rates of exchange, however, sales increased by 1 per cent.

	Sept 2002 € m	Sept 2001 € m	
Sales	1 784	1 836	- 3 %
Cost of sales	(635)	(644)	
Gross margin	1 149	1 192	- 4 %
Net operating expenses	(964)	(939)	+ 3 %
Operating profit	185	253	- 27 %

The decline in sales, combined with a slight weakening in the gross margin percentage as a consequence of the strong Swiss franc, has resulted in a 4 per cent decline in gross margin for the period.

Operating expenses showed an increase of 3 per cent. This reflects management's commitment to limit the rate of growth in operating costs. This growth is a consequence of further expansion of the Group's retail

network together with investments in building distribution capacity and after-sales service centres, particularly in respect of Jaeger-LeCoultre, IWC and A. Lange & Söhne, in various territories.

The decline in sales and gross margin percentage for the period, combined with the increase in operating expenses, resulted in a reduction in operating profit of 27 per cent.

Sales by product line

	Sept 2002 € m	Sept 2001 € m	
Jewellery	397	394	+ 1 %
Watches	847	877	- 3 %
Writing instruments	130	129	+ 1 %
Leather goods	125	138	- 9 %
Clothing and other	285	298	- 4 %
	<u>1 784</u>	<u>1 836</u>	- 3 %

Jewellery sales continued to benefit from demand for the jewellery collections of Cartier, Van Cleef & Arpels and Piaget. Van Cleef & Arpels, in particular, reported excellent sales growth in the period, albeit from a relatively low base. Watch sales declined by 3 per cent for the period. In general, sales of steel and steel and gold watches performed better than precious metal and

jewellery watches. Menswear sales benefited from good sales in the seasonal collections of Dunhill and Hackett. Chloé also performed well during the period. Declines within the fragrance and eyewear product categories, largely attributable to the downturn in travel-related business, negatively impacted the “clothing and other” category overall.

Sales by region

	Sept 2002 € m	Sept 2001 € m	
Europe	779	815	- 4 %
Asia	667	688	- 3 %
Japan	326	337	- 3 %
Asia-Pacific	341	351	- 3 %
Americas	338	333	+ 2 %
	<u>1 784</u>	<u>1 836</u>	- 3 %

Depressed market conditions and a reduction in tourism in Europe have negatively impacted the Group's sales in the region, which declined by 4 per cent compared to the prior year.

Sales in Asia declined by 3 per cent. However, at comparable rates of exchange, sales in Japan grew by

5 per cent; sales in the rest of the Asia region grew at a similar rate.

In the Americas, sales increased by 10 per cent in dollar terms with strong performances by Cartier and Montblanc; on translation into euros, however, sales in the region grew by 2 per cent.

Sales by distribution channel

	Sept 2002 € m	Sept 2001 € m	
Retail sales	711	722	- 2 %
Wholesale sales	1 073	1 114	- 4 %
	<u>1 784</u>	<u>1 836</u>	- 3 %

Retail sales showed a 2 per cent decline compared to the prior year, whilst wholesale sales reported a 4 per cent decline. The percentage of retail sales to total sales increased marginally from 39.3 per cent to 39.9 per

cent, reflecting further investment in the Group's retail infrastructure. At 30 September 2002, the Group operated some 540 owned stores with a further 344 operated by external partners.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

The summary profit and loss account as well as the earnings per unit information set out below is presented on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items from the results of

both periods. A reconciliation of the profit and loss account on this basis to the result on a reported basis is presented as an appendix to this report.

	Sept 2002 € m	Sept 2001 € m
Operating profit	<u>185</u>	<u>253</u>
Net investment expense	(16)	(26)
Profit before taxation	<u>169</u>	<u>227</u>
Taxation	(37)	(65)
Profit after taxation	<u>132</u>	<u>162</u>
Minority interests	<u>2</u>	<u>3</u>
Attributable profit of the parent and its subsidiaries	<u>134</u>	<u>165</u>
Share of attributable profit of associate		
– British American Tobacco	<u>270</u>	<u>260</u>
Attributable profit of the Group	<u>404</u>	<u>425</u>
Earnings per unit – basic	<u>€ 0.725</u>	<u>€ 0.761</u>
Earnings per unit – fully diluted	<u>€ 0.716</u>	<u>€ 0.754</u>

Earnings per unit

Basic earnings per unit is calculated by reference to the weighted average number of units outstanding during the period of 556.9 million units (2001: 558.2 million units) and the attributable profit of the Group on an adjusted basis of € 404 million (2001: € 425 million) for the period. The number of units outstanding takes into account the effects of the Group's unit buy-back programme.

Fully diluted earnings per unit is calculated by reference to 574.2 million units outstanding (2001: 574.2 million units) and attributable profit on an adjusted basis for the period of € 411 million (2001: € 433 million) which reflects the notional additional interest of € 7 million (2001: € 8 million) which would have accrued to the company had the full number of units been outstanding during the period.

ASSOCIATED COMPANY – BRITISH AMERICAN TOBACCO

The Group's 21 per cent share of the results of British American Tobacco increased by 4 per cent to € 270 million for the six-month period ended 30 September 2002.

During the six-month period under review, Richemont received a total of €258 million in dividends from British American Tobacco. This comprised both the final dividend in respect of British American Tobacco's financial year ended 31 December 2001 and the 2002 interim dividend, received during September.

British American Tobacco performed well in the nine-month period to end September with adjusted diluted earnings per share increasing by 8 per cent from 45.80 pence to 49.47 pence. Sales volumes for the period totaled 579.3 billion cigarettes, with British American Tobacco's four global brands Lucky Strike, Kent, Dunhill and Pall Mall achieving sales growth of 9 per cent.

Profit for the America-Pacific region for the nine-month period showed an increase of 4 per cent to

£ 769 million. The company's operations in the United States increased market share and profit, while strong volume increases in South Korea more than offset the lower volumes in Canada. Total regional volume was 2 per cent ahead at 80 billion cigarettes.

In Europe a profit increase of 6 per cent to £ 412 million was achieved, as a result of solid performances in Germany, Russia, Ukraine, France and Switzerland, with volumes in line with last year.

In the Asia-Pacific region profit was 5 per cent lower, mainly as a result of markedly reduced duty-free sales volumes, while in the Africa and Middle East region the severe devaluation of the South African rand, the costs incurred in setting up the new operation in Turkey and lower duty-free sales contributed to a decrease in profit of 18 per cent.

British American Tobacco's businesses in Latin America performed well in exceptionally difficult economic circumstances, recording a profit decline of 4 per cent despite the currency devaluations in many countries and a fall in volume of 6 per cent.

CONSOLIDATED CASH FLOW STATEMENT

	Sept 2002 € m	Sept 2001 € m
Operating profit	185	253
Depreciation and other non-cash items	74	91
Increase in working capital	(160)	(378)
Net cash inflow/(outflow) from operating activities	99	(34)
Dividends received from associate	258	228
Returns on investments and servicing of finance	(16)	(24)
Taxation paid	(56)	(117)
Net acquisitions of tangible fixed assets	(66)	(147)
Buy-back of Richeмонт units	(31)	–
Other acquisitions and investments	(16)	(154)
Net cash inflow/(outflow) before financing activities	172	(248)
Repayment of long-term borrowings	(164)	(69)
Dividends paid	(178)	–
Other financing activities	18	–
Equity contribution by minority	–	20
Exchange rate effects	54	23
Decrease in cash, cash equivalents and short-term borrowings	(98)	(274)
Cash and cash equivalents at beginning of period	(723)	(375)
Cash and cash equivalents at end of period	(821)	(649)

Net cash inflow from operating activities during the period amounted to € 99 million, the cash flow from operations being partially offset by an increase in working capital.

Dividends received from associate reflects the dividends received from British American Tobacco, being the final dividend in respect of British American Tobacco's financial year ended 31 December 2001 and

the interim dividend in respect of the 2002 financial year.

In terms of the Group's unit buy-back programme, a further 1.6 million units were acquired during the period at an aggregate cost of € 31 million.

Dividends paid represents the Group's appropriation of earnings for the year ended 31 March 2002, paid on 30 September 2002. In the previous financial year, the dividend was paid only in October.

CONSOLIDATED BALANCE SHEET

	30 Sept 2002 € m	31 Mar 2002 € m	30 Sept 2001 € m
Fixed assets			
Property, plant and equipment	856	903	779
Investment in associated company	736	638	616
Other investments	442	470	419
	<u>2 034</u>	<u>2 011</u>	<u>1 814</u>
Net working capital	<u>1 952</u>	<u>1 956</u>	<u>1 589</u>
Net operating assets	<u>3 986</u>	<u>3 967</u>	<u>3 403</u>
Goodwill	5 570	5 730	5 910
Net borrowings	(1 401)	(1 456)	(1 255)
Cash, cash equivalents and short-term borrowings	(821)	(723)	(649)
Long-term borrowings	(580)	(733)	(606)
Other long-term liabilities	(184)	(176)	(158)
	<u>7 971</u>	<u>8 065</u>	<u>7 900</u>
Capital employed			
Unitholders' funds	7 893	7 983	7 810
Minority interests	78	82	90
	<u>7 971</u>	<u>8 065</u>	<u>7 900</u>

The increase in the investment in associated company since 31 March 2002 represents the movement in the Group's share of the net tangible assets of British American Tobacco.

The carrying value of goodwill decreased during the period as a result of the amortisation charge.

CHANGES IN UNITHOLDERS' FUNDS

	Sept 2002 € m	Sept 2001 € m
Profit attributable to unitholders on an adjusted basis	404	425
Goodwill amortisation	(196)	(192)
Exceptional items reported by associated company	–	(18)
Profit attributable to unitholders on a reported basis	208	215
Dividend declared	(178)	(168)
Unit based executive compensation scheme reserve movement	(31)	41
Translation and other adjustments	(89)	(15)
Net increase/(decrease) in unitholders' funds	(90)	73
Unitholders' funds at the beginning of the period	7 983	7 737
Unitholders' funds at the end of the period	7 893	7 810

Accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies as those set out on pages 50 to 53 of the Annual Report for the year to 31 March 2002.

Johann Rupert

Executive Chairman

Compagnie Financière Richemont SA

Swiss Stock Exchange compliance

These interim financial statements comply with the listing rules of the Swiss Stock Exchange.

Jan du Plessis

Group Finance Director

Geneva, 14 November 2002

APPENDIX 1

Consolidated profit and loss account on a reported basis

	<i>Notes</i>	Sept 2002 € m	Sept 2001 € m
Operating profit		185	253
Goodwill amortisation	1	(96)	(91)
Profit before net investment expense and taxation		89	162
Net investment expense		(16)	(26)
Profit before taxation		73	136
Taxation		(37)	(65)
Profit after taxation		36	71
Minority interests		1	2
Attributable profit of the parent and its subsidiaries		37	73
Share of attributable profit of associate		171	142
Share of attributable profit on an adjusted basis		270	260
Goodwill amortisation in respect of associate		(99)	(100)
Share of exceptional items reported by associate		–	(18)
Attributable profit of the Group on a reported basis	2	208	215
 A summary of the effects of goodwill amortisation and exceptional items on profit attributable to unitholders is shown below:			
Attributable profit of the Group on a reported basis		208	215
Elimination of goodwill amortisation	1	196	192
Reported by the parent and its subsidiaries		96	91
In respect of associate		99	100
Minority interests		1	1
Elimination of exceptional items reported by associated company		–	18
Attributable profit of the Group on an adjusted basis		404	425

Note 1 – Goodwill amortisation

The reported results reflect the Group's accounting policy of amortising goodwill through the consolidated profit and loss account. The goodwill amortisation charge at the pre-tax profit level for the six months ended 30 September 2002 was € 96 million. An additional goodwill amortisation charge of € 99 million arises in respect of the Group's interest in British American Tobacco. The goodwill amortisation relating to minority interests is in respect of goodwill arising on the acquisition of Van Cleef & Arpels.

Note 2 – Earnings per unit on a reported basis

	<u>Sept 2002</u>	<u>Sept 2001</u>
Earnings per unit on a reported basis – basic	€ 0.373	€ 0.385
Earnings per unit on a reported basis – fully diluted	€ 0.374	€ 0.388

Basic earnings per unit is calculated by reference to the weighted average number of units outstanding during the year of 556.9 million units (2001: 558.2 million units) and the attributable profit of the Group of € 208 million for the period (2001: € 215 million). The number of units outstanding takes into account the effects of the Group's buy-back programme.

Fully diluted earnings per unit is calculated by reference to 574.2 million units outstanding (2001: 574.2 million units) and attributable profit for the period of € 215 million (2001: € 223 million) which reflects the notional additional interest of € 7 million (2001: € 8 million) which would have accrued to the company had the full number of shares been outstanding during the period.

A P P E N D I X 2

Exchange rates used in the preparation of this report

The results of the Group's subsidiaries and its associate which do not report in euros have been translated at the following average rates of exchange against the euro.

The balance sheets of those subsidiaries and the associate have been translated into euros at the closing rates set out below.

	<u>6 months to 30 Sept 2002</u>	<u>6 months to 30 Sept 2001</u>
Average exchange rates against the euro		
Pound sterling	0.63	0.62
Swiss franc	1.46	1.52
US dollar	0.95	0.88
Japanese yen	116.98	107.81
Closing exchange rates against the euro		
Pound sterling	0.63	0.62
Swiss franc	1.46	1.48
US dollar	0.99	0.91
Japanese yen	120.18	108.43

