



**FY09 Annual Results Presentation**

**14<sup>th</sup> May 2009**

# RICHEMONT

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## Introduction

**Mr Alan Grieve:** Good morning everybody, welcome to Geneva. Thank you for coming this morning, I appreciate your time. We have the Richemont Financial Year, 31<sup>st</sup> March 2009 results presentation. I'd like to introduce to you, this morning, Mr Johann Rupert, our Executive Chairman, Norbert Platt, Chief Executive Officer, and Richard Lepeu, Chief Financial Officer, who will be presenting to you on the results. If I could just make the usual comment about mobile phones, if you could make sure they're switched off so that they don't interfere with the microphones and the internet broadcast. So welcome everyone, I'll hand you over now to Mr Rupert, Mr Platt and Mr Lepeu.

## Chairman's Address

**Mr Johann Rupert:** Thank you Alan. Morning everyone. You don't have to worry about your mobile phones, please coz there's no signal down here in any case Alan, in case you haven't noticed! I see there are very few people here. I gather it's LVMH's General Meeting today, at the same time. Sorry?

**Mr Alan Grieve:** And the internet broadcast.

**Mr Johann Rupert:** And the internet broadcast. Well, what we've feared over the past few years and communicated with you has clearly occurred. We do have a major economic contraction, a slow down, a credit crunch or as a friend of mine's blond wife said, 'We have a credit card crunch,' which I thought was quite a beautiful description! Now, the bad news is it's real, anybody who knows when it's going to end has got a line to the Almighty that I do not have an extension to, because I can assure you, we don't see any green shoots of recovery. I'm talking across the world in all industries, people that I speak to, whether they be in the luxury automobile industry, whether they be Sotheby's, Christie's, the wine-, people who sell our premier wines, and I think it's going to be with us for a while.

The good news is that we started quite a while, to prepare Richemont for this eventuality and as a result, due to the good work of Norbert, Richard and Gary Saage and all of our colleagues, we've got a very clean balance sheet and we have liquidity. Both inside Richemont and, if I dare say, at the Family Company above Richemont, so that you will see in our dividends that even though the Richemont shareholder of a year ago would have had, even despite the decline of sterling versus the euro and translated into Swiss francs, if Richemont shareholder had kept the shares, he or she would have had a small increase in dividends, even during these tough times. And, despite that small increase, you will notice that our dividend cover is still a normal prudent cover, which leads to the obvious conclusion that, as in the past, we are putting more money into the company. We support the Maisons, where, by the way, you'll see this little ® because we have actually registered our Maisons, because when Alain Perrin came with DNA and everybody started using it, it became banal. So, we

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actually-, Frederique Mostert did register Maisons for us, but this should give you confidence that we're here for the medium to long term, we're supporting the Maisons, the brand equity, we're supporting our colleagues, and during this period, however long it may take, we intend, also, to be working on our service to our clients.

I think it's best summarized by one of our colleagues who runs Van Cleef. When Norbert and I asked him a while ago, over a year ago, to start looking at what happened during the Great Depression. They actually went a bit further and they looked at Van Cleef and, as he modestly said, they are one of the younger Maisons in the group because they are only slightly over 100 years old. He said it seems that every 25 years, they have a crisis. So they had a crisis, the First World War, and our founder, the founder of Van Cleef and Arpels, went into the trenches and lying next to him in the trench was a gentlemen. He asked him what he was doing, he said, 'I am a jeweller.' So they agreed that, if they both survived the First World War, that his new comrade would join him. Well, he joined, his son later on joined, his grandson joined and the great-granddaughter is still with Van Cleef. Then came the Depression, obviously less work. They took their time and they designed and perfected the famous Mystery Setting which Van Cleef is still world renowned for. That was done at the height of the Depression. Then, the Second World War looming, they did another brave move and they moved to New York. In 1939, they opened on Fifth Avenue. Then the fourth, which most of the people in the room are too young to remember, but May 1968, in Paris, it was war. President De Gaulle had to surround the capital city with tanks. As you can imagine, being a jeweller on Place Vendôme, it was a crisis. So they used that crisis, and they designed the Alhambra range which today is still one of the best sellers.

To me, that's a leitmotiv for our Group, we will use the resources, our human resources, we will enhance the quality of the product, we will further improve our relationships with our customers and when this recession ends, hopefully, we would have improved our competitor position. To reiterate, we are in the recession that we expected, I have no idea when it's going to end. Luckily we're prepared, we've got a very strong balance sheet and as I repeat, as a family, we're liquid, so we do not have to rely upon dividends to service debt above the holding company, above Richemont, which is critical. We can therefore afford to leave the money in the company. Despite that, we're fortunate enough that we could give our shareholders an improvement in their dividends. I thank all of my colleagues for their work and dedication.

One additional comment, I was perturbed to read that Cartier was not doing well and that they were laying people off in Switzerland. Cartier had a record year, Cartier did not fire anybody in Switzerland. A number of our Maisons are using the partial work system, which I actually admire, which, by the way, we paid for in the good years. So yes, we will use this system that's at our disposal to balance supply and demand. These people were not fired, they are still employed and we have a partial system that you are all very aware of and familiar with. Secondly, there were some scurrilous attacks on Jérôme Lambert of Jaeger-LeCoultre, totally and utterly devoid of the truth. Not only were they inflammatory, but they were based upon total lies. There were no supposed meetings between me and Norbert. We weren't even in the same time zone. We took the very unusual step of actually suing the internet journalist. It's not a decision taken lightly, but when you have a colleague who's done exemplary work,

who's built a Maison brilliantly, who's watch I'm proud to wear, and who's kids have to hear lies at school we will defend our colleagues.

I don't know whether next year is going to be better. If you put three trillion dollars into a society, into a system, there's bound to be a bounce somewhere. Hopefully in a year's time, you'll say that I was overly cautious. I doubt it. I think we're here for quite a while. I'd like to hand it over to Norbert, who will present the first section of the results and then afterwards, Richard, and then afterwards we'll be open for questions. Thank you.

## Financial Highlights

**Mr Norbert Platt:** Good morning ladies and gentlemen here and on the web. I think actually my Chairman said everything, so we all can go home! Unless, of course, you are analysts, you need to look at the figures, so let's look at the figures. Well, this is a good result, and it's a bit, like, not interesting, because you will want to know, 'Will it remain that good?' Having said this, we have foreseen a very negative November/December. The decline somewhat slowed down to almost flat at the end of the last quarter, and therefore we are 2% higher than the year before, €5.42 billion. Region-wise again, not a surprise, contrasting too, not specifically big news, I guess. Asia/Pacific out-performed through the year, Americas showed the weakest, and the United States is close to being in debt right now.

The decline in operating profit resulted from the slow-down, but I think it was reasonably contained at €982m. In times like this, and the Chairman said it already, focus is on cash flow. I think we have managed well to show a strong cash flow of €819 million, with net cash ending at €822 million. Let me tell you something, last year when we met, around this time, we talked already about initial measures. We talked about it in anticipation that things might change. We introduced, at least in Japan and America, measures to be careful, to no more hire people early in the year, last year. Quite frankly, our colleagues thought, 'This guy is in the ivory tower and totally bananas, because we are still very optimistic!' Unfortunately, since October, even our younger colleagues know that we were, unfortunately, right.

This is shown again in this little chart here. Up until September, the world seemed to be okay and a lot of people, who had not come to live in business for forty years like me, thought it was never ending. Half-year sales ended 10% up in euro terms. Since October, of course, and I don't want to bore you with the details because we all know that financial markets went where they went, and all feel-good factor therefore just disappeared like water on a hot plate. Feel good factor is the key for our business. Travelling is the key for our business, by the way, and quite frankly, when the thing started in Mexico, I thought, 'Oh my God, please, no.' A week before, I heard a very interesting philosopher talking about how you can force luck and I thought, 'Please not,' so let's all touch wood that this crisis of the 'swine flu' or the 'Mexico flu' is contained as it looks like now.

We had an obviously poor Christmas season, with reported sales down 7% in September [Ed: meant December]. As I said before, the last quarter ended somewhat less negative, down minus 1%. As a result, second quarter, as you can see there, ended down 5%. Let me talk a bit about currencies. We have often said this, the Chairman has said it here in various occasions before, volatility of currencies, of course, is a burden for a global business. The last year was very interesting, because of course a stronger Euro means no more local price increases, higher purchases from non residents in Europe and a higher translation of results. The Yen strengthened, it has strengthened, since its weakest point, almost 20%, as I don't need to tell you, which is good for us. But then we saw a very weak dollar, all your colleagues expected it to go to two, by the time you were absolutely sure, it changed around again and has become stronger, which, of course, is difficult for the business to manage. It's impossible to manage, these are the things we cannot manage.

Prices for gemstones and precious metals had a similar curve. Last year, it was almost impossible to buy stones, the price of gold, I don't need to talk about, because it went to the biggest peak ever. Meanwhile, every commodity, every material went down to the very bottom and is on the upswing, as you know, the price of oil yesterday touched again USD60, which again is good for our business because the Middle East is still one of the growth regions and we hope that is continuous. Again, this is a mixed environment, my Chairman has said everything, what there has been to say. Richemont managed to deliver a strong set of results, we believe, and we are pretty confident we can weather this storm. Richard will now show you the figures in detail.

## Review of Results

**Mr Richard Lepeu:** Thank you Norbert and good morning to you all. Let's start with sales.

Sales in Europe, which includes the Middle East, remains our biggest region with 44% of Group sales. Sales rose by 5% at constant rates with a decline of 8% in the last semester. These results mask a strong performance in the Middle East where sales grew by 49% at constant rates. Even in the second half, sales continued to grow at similar levels. The Middle East contributed 6% of Group sales. In Western Europe, sales declined by 1%. Sales with locals decreased but increased with third party nationals from Eastern Europe, the Middle East and Asia. We estimate that above 50% of sales in this region are now made with this clientele.

Asia Pacific is our second region. Its weight has increased to 27% of Group sales. Sales rose by 14% at constant rates, the fourth year of double-digit growth. The growth rate, however, slowed down to 1% in the second half of the year. The performance was uneven among main markets. Sales in Taiwan and Singapore were down while in Hong Kong sales grew by 12% at constant rates, despite the challenging plus 39% achieved the previous year. In Korea, sales were even stronger thanks to a return of Japanese consumers, due to the appreciation of the Yen. In Mainland China, sales rose by 30% after plus 54% last year, confirming China as our number two market in Asia Pacific after Hong Kong. In the last semester, sales grew

by 11%. Mainland China has increased its contribution to Group sales to 6% and now ranks number five, compared to seven a year ago. The Yuan strength versus the Euro (plus 13% over the period) has further boosted tourism of Mainland Chinese abroad. Overall, we estimate Chinese from Mainland China, Hong Kong and Macau to account for more than 20% of Richemont sales. We view this clientele and region as strategic and the ones to outperform the rest of the world in the future.

The Americas region contributes 16% of Group sales, and for the US only, 12% of Group sales. After seven years of double-digit rate growth at constant rates, sales momentum in the US slowed in August, to turn negative in September. The trend worsened such that half-year sales ended March 09 down 30 % [Ed: down 35%] at constant rates. For the year as a whole, US sales declined by 12% [Ed: down 14%] at constant rates. The only piece of good news was the appreciation of the US dollar from August to March, which softened the decline of sales expressed in Euros and stopped price increases. Given the difficult environment and the cautiousness of our watch retailers, we maintain a negative view on this market. We have restructured the region by making people redundant and are also looking at closing down certain boutiques down in Fiscal 10 out of a total of 90 internal boutiques in the US.

Japan's contribution to Richemont sales only represents 13% of sales but remains our biggest single country. Sales declined by 12% in Yen but only by 1% in Euro given the 11% appreciation of the Yen over the period. Since its lows in July 2008, the Yen has risen by 28 % [Ed: by 22%] . Given the structural issues of Japan, again, no CAPEX and a streaming down of expenses will take place. Thirteen boutiques will be closed out of a network of 169. With the Yen appreciation, we started seeing Japanese tourists returning to Korea, Hawaii and France. Overall, we estimate the contribution of Japanese to worldwide sales in the order of 15%.

Looking at the constant currency sales by product line, we note that Watch sales were flat, masking a notable performance from IWC, Vacheron Constantin and Jaeger-LeCoultre. The inflection in sales momentum has prompted us to reduce the Group's manufacturing output to limit a build up of inventory at trade level. Jewellery enjoyed the best performance, contributing €120m in sales increase. The 9% constant currency growth rate reflects success at Cartier and Van Cleef & Arpels; particularly in High Jewellery sales. Leather sales were 5% down, despite positive developments at Montblanc. The reduction in sales of Writing instruments reflects a difficult market. Sales in Ready to wear and Other went up by 9% as a result of the integration of Donzé-Baume, a manufacturing company of watch cases.

Retail sales represent sales to our directly operated stores; they do not include sales to our franchised stores. The weight of retail is pretty much stable at 43% of Group's sales. Its performance, plus 3% at constant exchange rates, was above wholesale. It's largely attributable to High Jewellery sales and the impact of the new stores. The Wholesale performance reflects mostly the cautiousness of the watch retailers.

Here is our P&L. Sales grew at 2% in Euros terms and at 1% at constant currencies. The IFRS operating profit decreased by 12% to €982 million. The decline was contained thanks to a controlled growth in operating expenses, and despite high non-recurrent charges that I shall detail in the next slide.

For the sake of clarity, here is a reconciliation of our operating profit. Starting with our reported IFRS EBIT of €982 million, I would like to remind you that it does not include the €30 million negative contribution of our discontinued businesses, namely the Montegrappa Maison and the small jewellery workshop. If you want to obtain an underlying operating profit from continuing operations, you should add back the €79 million of non-recurrent charges. These charges consist of one-off costs of €40 million such as a second SIHH and reclassification of point of sale material in application of the new accounting principle IAS38, as well as €39 million of restructuring charges consisting mainly of provisions for closing stores and social plans. I also want to remind you that we have benefited from more favourable exchange rates, which on the other hand, are generated financial losses, realized and unrealized, which are reported under finance costs.

The gross margin rose to €3.43 billion. In percentage terms, it lost 130bps to represent 63.3% of sales. This decline is the result of a stronger Swiss Franc, high precious material prices and the negative impact of lower production volume on manufacturing fixed costs; only partially offset by price increases. As I explained earlier, we also benefited from favourable exchange rates, especially on the Yen and US and Hong Kong dollars, which have somewhat compensated the appreciation of the Swiss Franc. In this global negative context, Cartier and Baume & Mercier still managed to increase their gross margin percentage.

Net operating expenses grew by 7%, above the 2% growth in sales. Excluding one-off expenses of €79 million, they grew by 3%. Selling & Distribution costs, 50% of total OPEX, rose by 5%. The rise reflects primarily additional staff, leases and depreciation associated with the retail and wholesale network. Communication costs were well controlled, taking into consideration the dramatic decline of sales during the Christmas season and the two Watch Salons. As a result, the ratio was maintained at 11.9% of Group sales, and for Fiscal 10, we anticipate this ratio to remain broadly in line. Administration costs increased by 4%, reflecting higher inflation rates around the world. Other income includes higher royalties from Chloé and a portion of the non-recurrent charges mentioned earlier.

The Jewellery Maisons and the Specialist watchmakers generated a contribution margin above 20%. The contribution of our Jewellery Maisons and Specialist Watchmakers reached a high of 95% of Group EBIT before corporate expenses. This performance was partly offset by lower results elsewhere, especially at Montblanc.

The Jewellery Maisons sales grew by 4% at constant and reported rates, a notable performance given the environment and the very strong comparatives. Let me remind you that sales grew at plus 16% at constant rates last year. The Jewellery Maisons saw their contribution rise to €777 million leading nevertheless to a 28% contribution margin. Cartier boasted a record year both in terms of sales and profitability. This achievement underlines the resilience of its business, a balanced product offer and geographic coverage including a successful penetration of emerging markets. Van Cleef & Arpels' profitability has continued to improve. Return on assets has declined due to higher inventories but remained at a strong high level.

Sales rose by 3% at constant rates for the segment of Specialist Watchmakers and by 4% in Euros, initially impacted by components shortages and, later, by the softening of the watch market after years of extraordinary growth. The Specialist Watchmakers saw their operating contribution decline to €287 million. Their contribution margin went down to 20% of sales, affected by slower sales, a stronger Swiss Franc, the integration of Roger Dubuis as well as the second SIHH. With the exception of Roger Dubuis, all Maisons are profitable and generated a double-digit contribution margin except for Baume & Mercier. IWC particularly stood out, followed by Vacheron Constantin and then Jaeger-LeCoultre. Those three Maisons generated profits broadly in line with last year. The rise in net assets reflects our increased production integration as well as the build up in inventories and the acquisition of Roger Dubuis.

Following the decision to discontinue the operations of Montegrappa, this slide only relates to Montblanc, both for Fiscal 08 and Fiscal 09. As expected, Montblanc price positioning and high exposure to an aspirational clientele made it more sensitive to economic slowdowns. The ongoing downsizing of its wholesale distribution network has put more pressure on its pen and wholesale businesses. Despite a positive performance-, plus America, more exposed to America-, massive exposure in Japan-, despite a positive performance of its watch and leather business and on the face of two years of strong double digit growth at constant rates, sales declined by 7% at constant rates and by 6% in Euros. The evolution of the business model entailed higher working capital and investments in production and distribution. A review of the retail network was undertaken and led to the decision to close eleven under-performing stores in Fiscal 09 and 23 in Fiscal 10, mostly in the Americas and Japan. €7 million of restructuring charges have been allocated in this financial year.

Alfred Dunhill losses amounted to €2 million after a small profit last year. Dunhill has planned to close nine stores including four in Japan. Restructuring charges in the current year amounted to €1 million.

Lancel reported sales-,

**Mr Johann Rupert:** They made profits, but I actually thought that as part of building the anima, they needed to have the two Maisons, the homes in Beijing-, sorry in Shanghai and in London and the club Alfred's in London. It's having the desired effect, but obviously there's a lead-lag in terms of a new concept, because they did make money-, I think I owe it to Christopher Colfer, they made money before this nearly €2 million charge that fell between the two homes.

**Mr Richard Lepeu:** Lancel reported sales down 8%. Therefore, despite a higher gross margin percentage, Lancel generated a loss of €8 million, up €4 million on last year. Lancel will close six stores, including four in Europe, incurring a €1 million restructuring charge.

Other Businesses consists of fashion brands, primarily Chloé, as well as some non-branded component manufacturing activities and other ventures. Sales rose by 3% at constant rates and by 6% in Euro. Lower sales at Chloé were more than compensated for by the impact of the acquisition of Donzé-Baume. Losses include €6 million of

restructuring charges mostly due to our component manufacturing businesses, Chloé remaining profitable.

Net finance costs amounted to €101 million primarily due to the mark-to-market accounting of our hedging programmes. It is obvious, as I mentioned, that we are benefiting directly in our gross margin of the favourable situation of the exchange rate, but because we maintain our policy of hedging, we have, as a counter-part, losses of hedging programmes. The lower reported tax rate of 15.7% reflects lower earnings and lower statutory tax rates in various jurisdictions. Net profit from parent & subsidiaries decreased by 23% to €748 million, representing 13.8% of Group sales.

Cash flow from operations reached over €800 million despite the sharp reversal in sales trends. Working capital increased by €361 million primarily due to an increase in inventory. Inventory rose by €346 million due to lower sales, the acquisition of Roger Dubuis, network extension and a stronger Swiss Franc. The rise was mostly in finished goods. The stock rotation rate on gross inventory has gone from 16.4 months in March last year to 18.7 months this March. Inventory is monitored strictly, and Norbert will give you more details later. The collection of debtor balances is being tightly monitored and is slightly above last year relating to increased sales in the Middle East and China. The average recovery rates have not been impacted. Other items decreased as the funding of certain retirement benefits obligations did not recur in 2009 and charges on long-term incentive schemes declined.

Free cash flow from subsidiaries declined to €213 million due to higher CAPEX and the acquisitions of Donzé-Baume, a manufacturer of high-end watch cases, and the 60% of Roger Dubuis and other ventures. I will deal with CAPEX in the next slide. The increase in tax payments reflects primarily payments accrued in the previous year. Richemont received for the last time a dividend from BAT amounting to €343 million, which was left with Reinet on the 20<sup>th</sup> of October 2008.

Gross fixed assets rose from €271 to €305 million, accounting for 5.6% of sales. They were essentially targeted at growth markets (China and the Middle East) and watch manufacturing needs. Net fixed assets amounted to €293 million compared with a depreciation level of €175 million. For the year to come, we anticipate gross fixed assets to be around €165 million, which is more or less in line with the level of depreciation. We will continue to invest in SAP, in new boutiques in China – primarily for Cartier – with limited refurbishment elsewhere. We will continue to invest in two major manufacturing projects: Jaeger-LeCoultre's extension, which is nearing completion; and ValFleurier, the strategic watch component facility, to mitigate potential supply-chain risks ahead of 2011 and address the increased demand for high-end in-house movements.

By segment, around 30% of the investments were made by the jewellery Maisons and around 20% by the Specialist Watchmakers. By geography, as planned, apart from the investments in manufacturing in Europe, most of the others were made in Asia Pacific and in the Middle East. By nature, over 50% of our investments related to retail. The most notable retail investments during this year were Cartier's new boutiques in Beijing Park Life, Seoul Cheongdam and Dubai Mall; Van Cleef & Arpels, Montblanc and Piaget new stores in the Dubai Mall; and the Dunhill and Vacheron

Constantin flagships in Shanghai. The majority of “Other” relates to investments in our Services Platforms and IT hardware. In manufacturing, over 30% of our investments, the most important investments, were the extensions of the manufacturing facilities of ValFleurier that I mentioned, of Jaeger-LeCoultre and Cartier la Chaux de Fonds. It does not include the intangibles relating to R&D for watches.

Even after the cash payment of €438 million in ordinary dividends at the end of September 08, and the transfer of €351 million to Reinet on the 20<sup>th</sup> of October, Richemont’s balance sheet remains very healthy. Inventory at €2.4 billion is our biggest asset representing 33% of our total assets, followed by cash (26%) and fixed assets (21%). Our gross cash position amounts to €2.0 billion and our net cash position to €822 million. Equity represents 65% of our balance sheet. Since 2007, the Group has adopted a very conservative stance for its cash resources by investing in funds of the highest rated European Government bonds, preferring safety to higher yields. At the end of March, close to €850 million were invested in such funds. Operating cash is invested in the most highly rated banks while structural operational debt is primarily maintained in non-Euro denominated currencies.

As explained earlier, the net profit contribution from parent and subsidiaries declined due to a lower operating profit and a significant decrease in net financial income only partly compensated by lower taxes. In this slide, you can see the impact of the Group’s restructuring. Profit from BAT has been equity accounted until the 20<sup>th</sup> of October. The 2009 dividend of CHF0.30 per share to be proposed to shareholders in September reflects the absence of any BAT dividends inflows. However, when taking into account the dividends to be received directly from BAT, a unit holder who has kept his BAT shares after the distribution of Reinet, would receive at least the same dividend as last year. The dividend will be fully paid in Swiss Francs for the first time and will be subject to the 35% withholding tax. Thank you. Now I will hand you to Norbert.

## Strategy Overview and Conclusion

**Mr Norbert Platt:** Ladies and gentlemen, besides the analysis of figures, I give you a little bit of an overview of how we handle this unprecedented crisis. I will talk about the issues you see there in detail. Specifically, I think cash generation is one of our big focus for the period to come, however long that period might be. We have quite early stopped overtime, because it’s very obvious that any kind of excess in production leads finally to inventory levels which are unhealthy, even if you have some discipline in your own companies. You do not want to produce products, particularly watches which you cannot sell, and even more importantly, we don’t want to overly push sales to watch retailers. As you all know, that this has undesired and unintended consequences, the grey market being one of them. As you have heard before, until September, the growth of watches resulted that in most of our Richemont internal and external component manufacturers, we could not get enough products. We were unable to meet demand, nothing particularly exciting for you to hear, because last year, that was the topic, ‘What are you doing?’ Topic from you, ‘What are you doing

to meet demand? How can you expand production? Which new factories are you building overnight?’

Well, as we all know, this demand stopped almost overnight and we introduced in October, a hiring freeze for all areas. I tell you, I live in a French environment, right, and I love that French environment. However, when you stop hiring people, and even more, you tell them every hiring is now personally endorsed by the CEO himself, some of my colleagues said, ‘Now he has totally lost it.’ Why do we do this? We want discipline. We want people to think twice before they replace or re-hire. Of course, strategic positions should be re-hired, but not necessarily everybody just by routine and impulse, so it’s a disciplinary exercise where my HR Director suffers most, because he’s the first guy who gets all the requests and he has to filter. There was a time when I just chased him out of the office, because I knew it would get worse. We have maximised insourcing and minimised outsourcing. Unfortunately, our competitors do the same thing. You know that we are not only having plants, we have a number of factories which produce components for us and for other companies, including, of course, our competitors. One of the historical structures of Swiss watch making. A dial manufacturer like Stern, or Donzé-Baume as I said before, we worked overtime until December even, and today we have a workload below 50%.

That workload, of course, is also partially caused by external customers including the Swatch Group, who have also reduced their demands of supply drastically, to do what we are doing to manage inventories. However painful that is, we had to downsize some of these operations because we think this demand will not that fast recover. However, when we do this, we look very much at not losing the people who have the specific know-how. Stern, for instance, is a company which makes extremely sophisticated dials, it’s the company in the industry. We have to be very careful to balance adjustments to capacity and at the same time, not lose the know-how which we will need badly when, and I say when, not if, when the upswing comes. Therefore, and the Chairman mentioned it before, the *chômage partiel*, the partial working time, which we have prophylactically in place for all our Maisons. Not yet executed for all our Maisons, but prophylactically in place, he’s agreed to do that. This concept, as you probably also know, also works in Germany and that’s also in place, therefore, for Montblanc and we will take two months to look at the development and decide the appropriate measures. It might lead to extended summer holidays here in Switzerland. As you know, I’ve never understood this as a German, why we need to close factories for three, four weeks, but in Switzerland, that’s a history you cannot work against. Now it’s an opportunity to extend this, if we need to do that. It’s not decided yet, but we will do it if we have to. Again, why? Because over-supply is the worst that can happen in the luxury business. Besides all the consequences for your own cash flow, there are stock risks and so on and so forth.

Of course last year we had still very vibrant discussions to build all these factories you wanted us to build. Of course, we have stopped all these projects for the time being. In October, we froze instantly all non-strategic CAPEX. Of course that does not change our view on the long potential of the industry. For the time being, we will limit our investments, Richard mentioned it already, to two strategic projects, SAP and selective boutique openings mostly in Asia Pacific. We opened, in the year, 59 stores and invested €60 million in Asia Pacific and Middle East. €40 million were

invested in Mainland China. Richard again mentioned that I think we have today a meaningful presence in China, specifically Dunhill, which has in excess of 60 stores in China, Montblanc in excess of 40 and Cartier in excess of 30. In production, we will limit CAPEX to R&D, but of course we will continue R&D. R&D is future. Engineers and people with creative ideas are the future of the company. It would be almost like shooting yourself in the foot and trying to run 100 metres below ten seconds to save even one cent in that area. We will have to finish the manufacturing extension of Jaeger-LeCoultre, which had been started in the good times, and that's on going.

I talked about the hiring freeze. If you look at our fixed costs, 50% of the fixed cost is related to people, so hiring freeze is a useful exercise, not loved by my colleagues, now more accepted, meanwhile more accepted by my colleagues. As a result of this freeze, we did not hire 1,700 people who were originally budgeted, so we have therefore reduced significantly headcount against budget, and we had to adjust, unfortunately also by some lay-offs of staff in the US and selectively in Japan. As I mentioned before, specifically in our component manufacturing entities, which work for the plants but also for competitors as I mentioned, we had to adjust production capacities and that caused lay-offs in the order of 300 people. We have decided that there will be no salary rise for non-union staff this year. In other words, only legally entitled contracted people who are entitled to this, will have a salary increase, everybody else not.

We have decided that the option programme this year will not be rewarded to management. We will, however, reward it to Executives. I mean, these guys, after all, do all the work, not the big Indians, right? When you are freezing salaries, when previous options are under water, at least the people in the trenches who do the work need to be seeing that the company is interested in their long future. That is why we continue this programme, but not for our top management. As Richard already mentioned, in excess of 60 stores will be closed throughout last year and this year. And again, we will look as the business develops, whether it has to stay that way or whether we have to take further measures, depending on the future sales. Communication expenses have been properly monitored. You have seen that communication has increased, but that is owed to the second SIHH mainly, which we had to have in this one year where we moved the SIHH, the Geneva fair, forward by three months to January. Finally, and that is a very interesting exercise, we are re-negotiating all fee-related contracts. That includes contracts for offices. In some countries that is not possible, my people tell me. Totally not true, it's always possible to re-negotiate. We have some considerable first successes in doing that, and we will continue to do that.

Here you see, in some more detail, the planned closures of stores. This is more or less evenly split among the regions, however as a percentage of existing stores of course, there are comparatively more stores closed in the United States for obvious reasons. Well, in a business which makes a margin in excess of 60% as we all know, you can cut costs but at the end of the day, we have to stabilise, improve, save. Therefore, we are of course aware that the business will suffer this year, but we are encouraging our Maisons to continue to be creative, to continue to spend money if opportunities arise that includes, by the way, opening boutiques. There are some streets in the world

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where it was virtually impossible to get a boutique because since twenty years, you cannot get the space. If these opportunities come, Ladies and Gentlemen, we will invest, even if it was not on budget, because we believe we will be around in 50 or 100 years, so it's not all about cost. Even in these challenging times, we believe that customers will continue to buy. After all, as Mr Rupert always says, we are in the business of love. A little bit also in providing envy, I think Rupert told you, but love foremost. And love never ends. That's the beauty of our business. This is a beautiful business to be in, Ladies and Gentlemen, even in crisis.

Of course we will monitor gross margins and costs and look even more at platform synergies. Again, you see Montblanc historically has been very much a stand-alone company. That comes with an element of pride always. Most of you know that I have been the head of this company a long time now. I'm tell them, you are going on the platforms, because we look for synergies more than before. Do they like this? Not really, but at the end of the day, they will be better off because they will have improved services and improved communication with their peers. So synergies is an issue which we are looking at, which we make strong recommendations to our colleagues, not always loved too much, but it is not a contradiction even though we want to still foster the entrepreneurialship of our independent brands. The CEOs, the staff of the brands have to be totally in love with their brand, nobody else. To an extent, not even in love with Richemont.

So we will go for-, we believe that our customers, in times like this, will go for creativity, they will go for legitimacy, and they will go for secure iconic creations. Secure investment, if you want. I think Richemont has a wonderful stable of brands to offer exactly that. Simply crunching out new products of course will also not do it, under the banner of innovation, not enough for future success. Our clients, specifically in the Western world, could look much more at the investment value of products than they ever did before. Even if it is only an excuse, 'It will last for my son,' 'It will last for my daughter,' it will even last forever. We have a lot of brands which provide exactly this, so we are-, we know it will be difficult, but we also know that we have the right brands to sustain in these times. Over recent years we have looked very much at trading up, the whole industry has been going, trading up. We are now encouraging even more, again, brands to enrich their collections with accessible products. If you have a frequency drop in the States, in boutiques, of 50%, there are many measures of course to increase frequency. One is to have products which are costing less. It's very simple. Costing less and still of the highest quality and the highest creativity. That's the trick, of course.

Now of course I will tell you everything that will happen in 2010, right? The problem is we all don't know. As we all don't know, cash conservation and preservation is key. Our managers are focused on this, are focused to look at inventory decrease. Richard told you that we increased our inventories this year because in our business you cannot switch off production overnight, but our people are very focused and have understood this and I think the last months have already seen a dramatic reaction to good inventory management. We have good people, they understand the rules of this period. We are focusing, as I said before, on creativity and quality of service. The Chairman said it before, and of course, when I'm talking about hiring freeze, it doesn't apply to any point where the customer is in touch with us. To any point that

the customer is in touch with us, because he should feel service, dedication, love and not frustrated. Same as people who cannot handle customers are frustrated after same as people.

We are continuing to invest in after-sales service, which will be a non-survival issue for a lot of small competitors. After-sales service is complicated to organize around the world and some brands don't really have such a good service concept. Now customers are even more demanding. They don't want to wait any more for six week or even six months to get their watch back. We are just starting our own watchmakers school in China, because it's not good enough what we are doing yet and we have grown a lot, as Richard told you, and so looking at costs is balanced by looking at the future. Of course, strong brands, at the end of the day, will be able to gain market share. Our dealers, our partners, have been partners for decades and they know that they can trust us and they want to sell the best. The things, which in these times, turn better than maybe others. Therefore we will come out stronger and better positioned and we will have gained market share when this thing turns.

I think you will trust us that we can manage costs and that we have strong cost control in place. We will look, of course, throughout the year, how we allocate resource, cash, especially with the under-performing brands. April was not a good month, it was, as expected, sales declined by 19% in Euros reflecting that difficult environment, and of course very strong comparative figures in April 2008, which was the record April ever in the company. Therefore, these trends which we have seen, a flat first quarter is not seen in April but then we should not, quite frankly, over-estimate April. April is the first month of a Richemont year, and when you have a very good year before, our brands tend to slow down supplies in March and push some to April. We know that. I did it myself when I was in Montblanc. So April is not-

**Mr Johann Rupert:** What do you mean, you did it last year?

**Mr Norbert Platt:** (laughter) We did it last year, yes, I tolerated it.

**Mr Johann Rupert:** But they did it the previous year?

**Mr Norbert Platt:** No, this is very normal that when-

**Mr Johann Rupert:** So they may have moved it across the year-end line in 2008, I think that's what-

**Mr Norbert Platt:** That's what I'm trying to say. That's very normal when you have-

**Mr Johann Rupert:** When they hit their budgets and their KPIs, you know, like all Governments, you know, they hide. You know, they stick away or they spend otherwise, next year, they don't get the same allocation. When he was at Montblanc he told me that he never did it! When he came to Head Office-

**Mr Norbert Platt:** Yes, everybody has to have a few tricks left, I think. Okay, so yes, there is not-, these are not pretty figures. They were expected. We expected these

figures. There is some silver lining, that retail declined only by 8% where others declined by 26%, which is the effect, of course, will we afterwards have a thousand questions, how we can gauge the sell-out with the sell-in. That will be an interesting discussion, I am sure. We think that the first quarter will be significantly below the level last year and in view of lack of visibility, I said it a few times, we believe that we-, in the wake of the recession and uncertainties about currencies, we look negatively at the full year. We are working around stabilisation, the assumption of stabilisation, of consumer confidence of course and like everybody does, but remember that until September last year, our comparative pace was extremely challenging at constant currencies with plus 14 and-, rather 24%. So, in the second half, the comparative figures will be less, the second half of this year. Therefore this will be a very interesting year but we will, with confidence, manage this.

Conclusion. As I said at the very beginning, one year ago in this room we all worried about capacities. You, as well as we. I think we worried a bit less, because we started already in the very beginning of the year to reduce, to freeze CAPEX in Japan and the US, and to stop hiring in these countries. As I explained to you, since then, we have further cut CAPEX and expenses and I have deliberated already on the measures of shorter working times and a limited amount of redundancies. We will not rule out further redundancies but it is the “ultima ratio”, which we will have to gauge very much against the long-term future. We are, I said it before, not positive for this year, we acknowledge that our view is not shared by all of the industry, and again, we hope to be proven wrong. It would be wonderful if we are proven wrong and the others are right. We are well aware that most of our costs are fixed and that to cut costs costs money, so we will continue with prudent management, a wonderful mixture, what Johann calls Germanic French. It’s a wonderful cocktail, I can tell you. We are not forgetting to invest in the future, I think I made this point, even so maybe more selectively than in the past. Our balance sheet is strong and most importantly, our Maisons have been around, most of them for more than 100 years. They are run by dedicated, motivated, good people. What else can you ask for, than dedicated, good people? So, Sophie asked me, ‘What if they ask you or Mr Rupert, can you sleep well in the night?’ So I will pre-empt this question, (inaudible interjection from attendee) because it’s a very beautiful (inaudible interjection from attendee) question Johann. No, she wanted-, it’s a very beautiful question and I’m sure my Chairman will share my view. Ladies and gentlemen-,

**Mr Johann Rupert:** I can tell you, you can sleep well at night.

**Mr Norbert Platt:** Yes.

**Mr Johann Rupert:** Okay? So relax. So why does she ask you that question?

**Mr Norbert Platt:** Yes sir. No, she just wanted to-,

**Mr Johann Rupert:** Is there something that you’d like to-,

**Mr Norbert Platt:** No. Sophie worries about us guys here, and she wants to make sure we are very smart when we are up here on stage. Which we actually are, but we don’t show it so often. So, what I was telling her last night, was, I sleep like a baby.

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We have a lot of cash in the bank. There are opportunities and most important, ladies and gentlemen, we have very good people in the Maisons who run this like entrepreneurs. Now they can show, really, if they are as good as they believe they are and as we believe they are. That's all I have to say, thank you very much.

(applause)

**Mr Johann Rupert:** Just one quick one. Norbert spoke about a watch-making school in China. It's Hong Kong and it's not that we ever intend making watches there, but it's for after-sales service, because in the end, we don't want to have a lot of our capacity tied up with people who should be making new watches in repairing watches. (inaudible interjection from attendee) Yes.

**Mr Norbert Platt:** Watch repair school.

**Mr Johann Rupert:** Watch repair school, yes?

**Mr Norbert Platt:** Okay, I don't want to confuse this. It's a school for making-, training watchmakers to repair watches.

**Mr Johann Rupert:** Yes, yes, no, I know what you meant. I was a bit worried when you said you slept like a baby, because if I remember when we had-, when our kids were babies, when you slept like a baby, it meant you wake up crying every three hours. (laughter) But Sophie, I don't understand this Q and A stuff that you prep people for. Norbert, as you've seen in the press announcement this morning, has chosen not to extend his contract beyond the end of the year. It's nearly five years, it will be five years in November. I want to obviously thank him, but I'll thank him in November and at the next AGM. He gave me an early warning, he-, and I said it this morning, he has developed diabetes over the period and I don't think it's fair you and-, believe me, he's going to live a very long time, but for those of you, please don't see the bucket list, and his quality time left in life. I have a friend who built an investment bank, very famous individual in the United States, who, post-retirement, bought another private boutique investment bank, by his own Citation, a self-made man who was really looking forward to spending more time with his wife, and she developed Parkinson's disease two years ago. So they never travel alone, and as he said to me once, 'Retrospectively, why the hell did I spend my time from 63, 64 onwards flying around the world? I had enough money already.' Now that he thought he was going to retire, late-60s, early-70s, he and his wife have been married for 60-odd years, they can't travel. So I respect his wishes. Have a hell of a nice time, which I intended to do. We all thought about having more quality time left.

The company is in great shape. The markets are not in great shape, but we've been there before. I mean, some of us have been there quite a while. We're going to have to manage expectations of colleagues, because sometimes we tend to have this confusion between luck and genius. You know, and are you as lucky-, are you really lucky, having been in the right business? Or were you a total genius? I always ask the question, for those of you who follow golf, did Tiger-, sorry, did Nick Felder make his coach David Leadbetter? Or did David Leadbetter make Nick Felder? Leadbetter became famous after Felder practiced ten, twelve hours a day. We've been in an

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extraordinary business, but it's been an extraordinary business not for decades but for a very, very long time. What I really like about this business is that I can go to sleep at night, knowing that there's not a single opponent in the world that can wreck your client's business, our business, our shareholders' business. Not an opponent. Not even the economy, if you manage your company prudently. However, we can wreck it ourselves. We can wreck it by picking low-hanging fruit. That Gucci, before Dawn Mello got there and Maurizio Gucci and Dawn Mello, and before they cleaned it up, was on the road to ruin. Picking out low-hanging fruit. So we have the SPCC and it works well. We will always think medium-to long-term and not wreck the brand equity of our Maisons, because ultimately the brand equity determines whether you have any pricing power in your Maison. If you do not have pricing power, in the end, your margins will disappear and your brands will disappear.

Now three, four, five years ago, even in our company, people told me, Dunhill, Dunhill, Dunhill, we've never made money, kill Dunhill. Well, as it so happened, Dunhill is brilliantly positioned in China and if you look at India, it's brilliantly positioned, masculine markets. If you do compounding and you say these people have worked hard, they're smart, they've saved, they'll have more disposal income, then you're going to be trend-surfing into a very valuable asset. I cannot tell you what it's going to be like this year or next year, but rest assured, I sleep very, very well. Until I hear stupid questions like that Sophie. He can sleep very, very well and I sleep very, very well. We're open to questions, but please don't ask again and again, 'So, what do you think the fourth quarter is going to be like?' I said this morning and I repeated it, anybody who knows what Christmas this year or Christmas next year is going to be like, has got a direct extension to the Almighty, he's got a line that I do not have an extension to. We are open to questions.

**End of presentation**