Richemont

Annual Results FY10

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PRESENTATION "Highlights & Sales": Mr Norbert Platt, Board Member, FY10 CEO

Good morning, ladies and gentlemen. Good morning also and welcome to those of you who join on a webcast. Before you ask, 'What the heck is *he* still doing here?' first of all, Mr Rupert couldn't be here today. He has other important business to attend to, which has nothing to do with Richemont. Secondly, I want to be living proof that there is a life after 55, for the Greek friends, and after 60 for the French friends. On a more serious note, of course this year has been still under my leadership, and so has been the budget process, so I will lead you through some of the overviews, and then of course Richard and Gary will continue.

This was, of course, a rollercoaster year. Prior to your friends from Lehman, we thought the sky is the limit, and after Lehman, for a little while, we thought with Asterisk, the sky would fall on us and we are all pretty much dead. So I don't want to lecture you on things you know as well or better than me, but of course the "feel good factor" was really deteriorating and the demand for luxury goods was falling very severely, particularly in the United States. Our friends in the States know only two states of mind: total euphoric or total depressed. We will come back to this later. Even in Asia Pacific, for a while, sales slowed down, but it was really a little while. I was in April in Hong Kong, talking to some of the major property developers, and when I talked about something like a crisis they said, 'No, but come on, give me a break. What crisis?' because of course I still wanted to see whether we could somewhere press down rents, but to these guys the crisis was like, I don't know, five weeks, or something like this.

No doubt that uncertainty and problems remain. We all look presently to the newspapers and to the media in general, and we see only the bad things. You guys on the other side of the casinos speculate against the Euro. To me, as a German, Euro at 1.21 or 1.20 is very nice. We will have a hell of a lot of exports. The Airbus industry, which is a French/German corporation, like almost this management was for the last five and a half years, is probably totally excited about the currency, and we all must not forget that when the currency started, the Euro, it was around that. It was around 1.20, even less, when it started. What of course is not good is the speed at which right now the Euro seems to fall. It's creating fear in Europe, specifically of course in Germany, where people have been almost all the time very aware of the hyperinflation Germany suffered during the Weimar Republic. Savings rates in Germany, I just read yesterday, is going back to the highest in seventeen years. For us that is not good news.

Prices of gemstones and precious metals have been rising, not maybe so much of fear of inflation, but of fear of the future. I think we are over the hill where people bought physical gold and stored it in their backyard or a safe or whatever, but we are of course a company which uses gemstones and gold, precious metal and for a while, again, you had a total rollercoaster. Prior to

Lehman, we couldn't buy gemstones. There were just not enough on the market. I mean big stones. After it, the prices dropped. Meanwhile they have stabilised, of course, and have gone up again.

Mr Rupert would now probably talk about whether there is inflation or deflation coming. Again, I don't want to lecture you on macroeconomics, but we all don't know quite yet how the world will get out and manage the macroeconomics to avoid inflation bigger than 5%. Again, to the Germans, 3% is already bad. To the Italians, 10% is not too bad. To the French, I don't know. So these will be interesting times ahead, until the world has managed the present circumstances. Again, now Europe starts seriously to look at their deficits. As they do this - Germany announced a cut of €40bn in costs - We all worry that this could slow down the economy. So, interesting times. Recovery, or a rebound of this, is still not quite clear. I guess Richemont will continue to manage in a prudent way, as we have built the budget. We hope that the rollercoaster will now no more be down, but it's going up steep. There are many signs but there are also many insecurities in the market.

I think, when we started last year, or after Lehman, nobody in the world knew whether business would shrink 10%, 20%, 50%. You have to see the circumstances when you look at our results, and specifically, although I think the uncertainty which started after Lehman-, and based on this I think we have proven that we have the business under control. The company is well structured. We have stricter cost control. We have clearer lines of communication and responsibility. We have been able to convince the brands that reducing capex, at least for a while, is the right thing to do. You know that we give the brands a lot of autonomy in running their unique businesses, and for that reason, again, Richemont is a big group, but actually it's a small group with eighteen different brands. Well, now nineteen if you think of Net-a-Porter.

We looked at the business without even jeopardising our strategy through the rough times. Of course, we had a lot of discussions with the brands to focus on creativity, and when I say focus on quality and service, that's anyway paramount. Without good quality and good service, you cannot survive in the luxury industry, even in good times. We maintained our high-end positioning. We did not waver or get too panicky. We did resist reducing prices and therefore our equity, our ultimate resource, is intact, maybe even more stronger than ever. As the brands, although focussed and concentrated on iconic products-, especially in times of insecurity, iconic products are big assets, because you can tell the customer, 'This is a product which lasts. It's for the next generation. Don't worry about it. The prices will not go down. They will, all the time, go up.' That is at least true for the hard goods, products of brands in the Group.

We started to be very rigid on production control. We wanted absolutely to reduce over-supply, which only leads to trouble in the marketplace, even though we continued, of course, in investments, in vertical integration, I'll come to that later, and in staff retention. There has been a lot of talk about Richemont reducing staff. We have not. We had structural problems in Roger Dubuis. Yes, we had to cut people and, of course, to a limited extent, we had to cut some people in the component manufacturing, which was of course hit very hard and much harder than the brands themselves, but looking at the 20,000 people which Richemont employed, we reduced not even 1.5%. We have, throughout the year, introduced stern measures, which the brands didn't like. No replacement except if Platt approves it. You don't get too popular with this, but it helped getting through rough times and, of course, no new hiring unless Platt approves it. It was a very interesting period of time because I got stacks of paper in that process. Now, again, with the new budget in place, of course, there is no more hiring freeze. Obviously in some of our manufacturing plants we have already shortages in standard products. I'm talking watches mainly. Shortages in standard products in the base business, so to say. You talk about base business in Jaeger-LeCoultre then you are talking about the good old Reverso.

We have continued to invest in what many people think is an SAP project. It's not an SAP project, it's a systems alignment project. Six years ago the Group had I don't know how many warehouses. Every brand had its own warehouse. Just to start with this. We will, in the middle of this year, start our own logistics. That means one warehouse in Friburg for the whole Group, except for the fashion, fashion business I'm talking mainly. Watches, of course. We will introduce the Gemini, i.e. the SAP project in France and Spain, which is a major step forward to have integrated processes for the Group, not only in America where we started, but now in Europe. I think some of the efforts you have seen in controlling inventories, specifically at Cartier, who is, to a great part, fully integrated with information from the boutique to the component manufacturer as a result of this new discipline and information advantage.

As you can imagine, with a dozen of hard goods brands, they all think their business is different and they cannot use a standard process. Mr Rupert and myself have agreed that I will stay chairman of this steering committee, because you need a little bit of German dictatorship to continue running this project in one direction and not fizzle it up too much. Again, even though I'm 63 already, for the Greek guys, okay.

We have increased the selectivity of our wholesale distribution and we have continued, maybe even increased the amount of terminations of relationships with unsatisfactory point of sale in wholesale. If everything else is in good order, the products, the customer wants quality, which is indisputable. Service in your boutiques which is first class. All of this is, of course, a crystal ball that will never end, when the quality of your wholesale distribution makes the difference. Richemont, being in the watch business, will always have wholesale distribution. We truly believe that we need this to compete with the other watch brands, and not only have them in a retail environment, but we will continue to build retail stores for the watch business. As we do this, we will reduce the wholesale partners. We have created a slogan, which I like very much, 'less partner for more partnership'. We have upgraded our retail network. That is, even under normal circumstances of course, a continuous process, but we have speeded it up specifically, although taken out some unprofitable, although strategically, not forward-looking stores in the States and elsewhere. At the same time, we have opened stores in growth markets, mainly, of course, in Asia: China, Hong Kong. Some of our best-performing stores today are no more in Europe. They are in Hong Kong.

Therefore, logically, the focus remains in our belief of the upside potential of the future, and the future, at least for the time being, lies principally in Asia-Pacific, in Asia-Pacific and in Asia-Pacific. That doesn't mean that all the other markets we have to neglect. That would be rather stupid and short-sighted. I will come back to this later on, but it's obvious that this Group has a very strong base in Europe, and it sells, basically, the concept of European craftsmanship. Therefore, having and maintaining a strong base in Europe is, of course, paramount, but growth is easier to get today in Asia.

You have seen, of course, these figures already. We had limited decline in sales to 4%. Operation profits and operations margins were contained to €830m and 16% of sales. Net profit from continued operations proved to be fairly resilient. It ended 18% down, to €603m. I mentioned it before. I am very pleased to report that cash flow from operations was €1.46m, and therefore has nearly doubled. When we started into this year, our chairman was very afraid that we couldn't manage that, and he still reminded me that in '94 we had to pay dividends out of borrowed money. He said, 'Norbert Platt, make sure with your guys you understand the concept of cash creation in troubled times.' I think our people, our Maisons, the management, the logistic people, the production people, have done a hell of a job to create cash flow, and therefore net cash today stands at €1.9m. That was prior to the acquisition of Net-a-Porter.

Of course, as I said before, a year of contrast. I am showing you this graph only to make sure you understand, of course, that as we go into the new year, in the year '11, the first half of the year probably will be very good, because we have comparatives-, which you can see on the chart on the right side in quarter one and two. We will of course have strong growth. Richard will tell you afterwards, in some detail, that April was up 24% against last year. The second half, which of course, you know that quarter four is the critical Christmas period, even though now, as the world has obviously changed a bit, and we have to look more at the Chinese New Year and events in the Far East, which is normally quarter four. It will be not as easy to beat the relatively good performance of the second half. What you will see again, to make it very simple, very good figures in the first half. We are very confident about this. Then in the second half we will have to work hard to beat the figures of last year.

I will give you an overview of the regions. Europe, as I said before, Europe is still the market where luxury brands have been created, where they have their home and where they have to be strong to be competent and authentic. It's our number one region, with 40% of sales. Of course we have seen sales in Western Europe decline by 11%, which means that we ended just above fiscal level of '07. The beginning of the year was difficult, with sales down 21%, and then, of course, in the second half it recovered. It will be interesting to see what will happen in Europe now if the Euro stays as weak. Of course, that will boost tourists coming to Paris and to Milan and to London and wherever, to buy. Our business with the Middle East and Russia is important, but the Middle East accounts for 6% of Group sales, and Russia only for 2%, so it's still relatively small compared. Both markets were up in sales for the full year. They had their problems in the first half. We all know that. Look at the crisis in Dubai. Look at the oil rollercoaster, which of course affects the Middle East. The bigger budget disciplines now in Abu Dhabi, I mean these guys start, for the first time, talking about budgets, and maybe that will have an affect on how much they spend spontaneously on a 5m USD piece of high jewellery.

Asia-Pacific. I've said it to my colleagues. In the last year, if you want to get really, really depressed, you fly to America. If you want to avoid the head shrink, you fly to the Far East. Their worlds could not be more different. Maybe now I should say you go to Net-a-Porter. You can see all the 25-year-old kids who believe in their future and see growth, which is of course from the moon, in that business. So Asia-Pacific, like for the rest of the luxury industry I guess, and maybe for the whole Western World producing, has been our strongest pillar, our hope. We see good growth. Asia-Pacific now represents 34% of Group sales instead of just 27% a year ago. A brand like Piaget has boutiques which do a turnover-, when I first looked at the figures, I couldn't believe that this is a normal-size Piaget boutique. I went there to look at it because maybe I had signed for a boutique of 500 square metres, but it was still a boutique of 80 square metres, and business was just unbelievable.

As I said before, the initial impact of the recession over there was very short-lived. Momentum has kept accelerating since August last year and, again, one senses strong brands get stronger, and that you can see specifically in Asia, where our star brands, Cartier, Piaget, Vacheron, IWC, do very well; Montblanc does extremely well. For the lack of a better story, when I travelled to China the first time, probably fifteen years ago, or maybe more, eighteen years, the only guys who were there were the Swatch Group, Omega and all the other Swatch brands. I saw the head of Montblanc and said, 'Maybe you should do something here.' Rolex, I mean the luxury industry, they were all still sleeping. Today, of course, everybody is there, which means the competition is getting more fierce, but those pioneers who were there first, of course, have gained momentum. It is also true for Montblanc, and then you have iconic brands like Cartier or Vacheron. Once the elephant starts walking, they gain speed and they gain momentum, and that's what you can see today with Cartier and the brands I just mentioned. The move to performance in Asia is practically all over the place. It's not only contained to Mainland China. Hong Kong is an absolute booming place. We have a cluster where almost all our brands are in the Heritage [1881] compound, which is close to the Peninsula and close to Canton Road and they are, today, some of our best performing boutiques, almost for every brand.

Macau, of course, is still big, growing. All the time, Singapore, Korea, even though to another extent, are our growth markets. We have strong brands, which can benefit from this. Sales in Mainland China rose only 19% after 30% last year. I say 'only' with a twinkle in my eye. That's still a very good performance, and it is now the fifth largest market for the Richemont Group, after Hong Kong, Japan, US and France. Now, of course the rather strong Yuan helps. The strong Renminbi helps to boost tourism, as, by the way, does the Yen. Again, just to make that point again, if you look purely to our business, the Euro at 1.20 is beautiful for Richemont. If it doesn't create too much anxiety for the people who want to buy a Trinity ring or a Montblanc pen, it's beautiful. It's the best thing that could happen to us. Now we have a little bit of a problem with the strong Swiss Franc, which of course has an impact on our cost of sales, but that is by far not as impactful as the Dollar at 1.20, or 1.21 this morning, I think.

We will continue to look at Asia as a growth region, where we put our strategic investment, but as I said before, this is a group which needs global exposure. Of course, we will not reduce our view on other markets. This is particularly true for America. As I said before, the Americans know only two states of mind: depression and total euphoria. My American friends who may be listening to me may forgive me for that superficial analysis. America was in total panic after Lehman. By April our sales fell 52%. Of course, we were in a state of surprise and 'when will it bottom out?' At the same time, as I said, we were as surprised by the suddenness of the rebound. Euphoria and panic. The rebound of the second half of the year was very sudden. Sales rose by 8%. Even though it's against easy comparatives, America I think is no more in a state of total disbelief in itself. By the way, America is never in a state of disbelief in itself, whatever the outlook is. Open brackets. One of the reasons why we started this very complex project, systems alignment, SAP in the States, the Americans-, 'We can do this.'

As we look at the States, and try to continue to reduce our rating leverage in order to manage the volatility, and as we continue to streamline our wholesale, we do believe that America will rebound, probably soon. America is a fantastic country, huge and rich. Many people who we send to the States never want to come back to Europe. It's still underpenetrated in terms of luxury. It has good demographics. We have great brands and why should some of our watch brands not grow very fast and continue to grow? So never bet against the United States. That's the message.

Japan. Japan is a difficult market. It's still the second biggest market for the Richemont Group, contributing 12% of sales. Sales declined in Yen by 17%. In Euro, fortunately, that was only 10%, because of the strengthening of the Yen. At the end of the day, Japan goes through changes. Changes in distribution to department stores are no more that strong. Business is more and more-, although, going through own retail stores, the department stores merge and merge and merge. They are busy with themselves rather than with the customer, but the Japanese client, of course, remains a luxury buyer. I think we have strong brands and we have to believe that we can take market share, to make sure that Japan stays a very important and profitable country, although let's not forget that Japanese tourists start to travel again. Yen strength is, in that sense, good, notably to Korea-, will buy in France and therefore, of course, it remains an important customer.

Sales by network. I've always believed, and still believe, and I've said it before, that the quality of distribution for a luxury brand is paramount. We, at the headquarters of Richemont, have to negotiate with our brands for the short-term and for the long-term. The long-term is less wholesale. Subsequently, our direct operated stores have continued to do well under the circumstances. They proved much more resilient. The decline in the first half specifically was much less than in wholesale and the rebound in the second half was stronger. Our sales rose some 2%. Performance well above wholesale, and as a result, today retail for the Richemont Group represents 46%. That's a very good number. It's maybe not good enough, but it shows that we are on the way for better control of our destiny in the marketplace, where we have touch points with the customer.

Wholesale reflects what you have seen in the Swiss export figures for the industry, a strong destocking from watch retailers until about November. At the same time we have continued reducing the number of external doors because in times of crisis you can identify which of the partners are not partners. We have taken those people out.

Restocking has started meanwhile, on a prudent basis, I guess. We have had a 6% rise in wholesale in the second quarter of the year. We see specifically in April a very good wholesale. For the first time it was better than retail. Richard will talk about this later. As a present state of affairs, I said it before, because our managers in the brands were focussed on cash generation, and we had a swing in inventories of almost 630m from +300 last year to -300 this year, we see already now it's a bit like an "embouteillage" on the Autobahn. We see shortages in production, specifically of the standard products, because these are the things, you know, in crisis you try to reduce. You try to reduce the work in progress. You try to reduce the stock because once we go we can easily rebuild it.

Unfortunately, now the rebound seems to be really quite strong and we are lagging a bit behind, which, in a way, is good for the morale in the factories, because, again, we have done short work quite a bit in order to save our knowhow in the Group. Short work is good for preserving cash, but that's the only thing it's good for. It will reduce your efficiency tremendously. People who work short work try to work slowly so that they don't need to work too much short work. That's human nature. They are afraid of what might happen to that job in the end, which, again, makes them reduce their efficiency. When you are afraid of your job and the wellbeing of your family, you can't be very effective, specifically if you do work which needs concentration. You build a watch, or a fine mechanical product. So, again, short work is not salvation. Never. It helps you contain the knowhow of the brands and the factories, and it is not very good for margins, because you still have the fixed costs. I mean, that's what you learn in already the first semester in economics, I guess. Some people still don't understand it, but that's what it is.

So to recap, I think we have-, and I'll give way to Richard to give you more detail. I truly believe that the Group is strong, well disciplined, well organised. The responsibilities of backbone versus brands is very clear today. The multi-brand service works. We have made a lot of progress in the last years. We have iconic products, which last for generations. We have good motivated managements. Last but not least, luxury products are bought either as medals, they're bought out of love, or sometimes reward, in extreme cases, self-reward. If the whole world is shitty, at least

I buy a nice Cartier watch or a Montblanc pen or IWC watch or whatever. That will not go away, anyway. Love will not go away and self-esteem and being different will not go away. This is a very strong Group. It has a hell of a lot of good long-term growth potential. A good story. I have worked 23 years for this Group and I leave-, I am not entirely leaving, as you know. I stay, still, a bit at the side, and specifically, as I said, with the systems project, but I stay president of Montblanc because the company is still not yet a butterfly. It's still to become a butterfly, from where it is today, and when you creep you are more vulnerable, before you can fly. So I am very confident that I leave the company not in a crisis, but on a strong way upwards. With this, I give to Richard.

PRESENTATION "Segmental Results": Mr Richard Lepeu, Deputy CEO

Thank you, Norbert and thank you for your comments. You make it easy for me, as a successor. Let us now revise and look at the Group results.

The decline in sales and gross margin was contained by lower expenses. As a result, the IFRS operating profit decreased to €830m, leading to an operating margin of 16% of sales.

Let's review gross margin and expenses in detail. The gross margin declined to €3.2bn, and now represents 61.6% of sales. This decline is primarily due to the very negative impact of a lower production volume on manufacturing fixed costs and, of course, a stronger Swiss Franc, because you know that the biggest part of watch factories are situated in Switzerland. Piaget, Van Cleef & Arpels, Montblanc and the Fashion & Accessories nevertheless managed to increase their gross margin percentage for the full year.

Next, net operating expenses. They declined by 4%, in line with sales. Selling and distribution costs, which represent 50% of total opex, rose only 3%. The rise reflects primarily depreciation associated with the retail and wholesale networks, given that the stores closed were fully depreciated.

Communication costs declined more than sales, due to last year's one-off and the increased maturity of our Maisons. Excluding last year's one-off, which, I remind you, is mainly related to the second SIHH, A&P declined by 17%. The ratio to sales amounted to 9.8% of sales, and for FY11, we anticipate this ratio to be around 11%.

Administration costs were more or less flat.

We intend to maintain this cost discipline, even if, as we are now going to see, we are gradually gearing up for a rebound.

Indeed**,** operating costs will start to rise again, as a result of store network extension and higher investment in communication, but again, in a disciplined manner. Capex will increase, in particular investments as far as stores renovation is concerned. Also, I would like to stress that, given the improving environment, and the restocking taking place, shortages have started to accumulate within our watch Maisons. As a consequence, we have had to speed up production again, although not at the full speed yet, as we prefer to see more concrete evidence of a sustainable rebound. And of course, we want to continue to focus on controlling the level of our inventories. All of this may weigh temporarily on our performance before we can take full advantage of a rebound, if it is confirmed.

Let's now look at the results by business area. First, Jewellery Maisons**.** Sales in this business area decreased by only 3%, a notable achievement given the environment. The very high-end of high jewellery has not reached past record levels, but the more traditional high jewellery and more accessible bijoux did very well. Watches resisted much better than the market, thanks to strong retail sales. Operating contribution declined to €742m. However, operating margin was contained at a high level of 28%. Cartier remains an outstanding Maison, with a marginal decline in sales and profitability. This achievement underlines the attractiveness of product offer, a broad geographic coverage and a leading position in growth markets. Van Cleef & Arpels was also resilient, albeit to a lesser extent, due to a proportionately higher exposure to Europe and the United States of America.

Next, our specialist watchmakers. Sales suffered most in H1, due to wholesale, but rebounded greatly in H2. Overall, a very good performance with sales decline contained to 6%. Piaget and Vacheron Constantin performed particularly well and were able to grow sales in this difficult period. Operating contribution declined to €231m, affected by slower sales, of course, a stronger Swiss Franc, and the under-utilisation of our manufacturing tools. As a result, contribution margin went down to 17% of sales. Do note that excluding two loss-makers, i.e. Roger Dubuis and Baume & Mercier, our specialist watchmakers would have generated a strong contribution well over 20%. We have indeed a coherent portfolio of eight complementary watch Maisons, all with different maturities and strong individual potential.

Writing Instrument. The table here presents the results of the Montblanc Maison exclusively. The decline in sales was contained to 6%. This is particularly encouraging, given Montblanc's exposure to a more aspirational clientele more sensitive to economic slowdowns, as well as to the USA and Europe. The continued downsizing of its wholesale network, mostly for pens, and of its retail network, remember that we closed about 40 stores last year for Montblanc, has put, of course, further pressure on the brand. However, this streamlining will be beneficial for its medium- and long-term future. All in all, this sales performance was achieved thanks to the resilience of watch and pens, higher retail sales and a leading position in China. Contribution margin rose by 14% to €79m.

Finally, the Other business area that comprises, on the one hand, Fashion & Accessories, and on the other hand, production of watch components to third parties and to our Maisons. First, the Fashion & Accessories. This business was profitable, from a loss of 5m last year. The €36m is therefore *only* due to our non-branded manufacturers of watch components. In Fashion & Accessories, the retail exposure, shorter life cycle and more accessible price points of leather products certainly explains this resilience. So did the good work carried out to reposition most of these Maisons. Lancel was particularly successful over the period. Alfred Dunhill and Lancel were very close to breakeven. Chloé generated a single-digit contribution margin, as the buzz is back which helped bring new clients for this brand. In production, orders were down by 60%, mainly from third parties. Although the momentum is improving, we do not expect a sharp reversal of trend in this area, and it will take some time to be fully efficient.

I now hand you over to Gary, my old partner. For those who do not know Gary, Gary has been working for the Group, even if he looks beyond-, well, more than twenty years. He was the finance director of Cartier in America, and after that he became the chief operating officer of Richemont North America, before becoming the chief operating officer of Alfred Dunhill and finally joining us at the Headquarter as Deputy Group Finance Director and now as Group Finance Director. Thank you.

PRESENTATION "Cash-flow & Balance Sheet": Mr Gary Saage, CFO

Thank you, Richard. You know, it's great to have friends like you. You know, we were talking about concrete things, and operating profit and cash flows, and my first slide that you give me in my presentation life is all about accounting and IFRS and mark to market adjustments, so we'll try and get through it.

Net finance costs. €137m. €132m of this relates to mark to market adjustments on our cash and investment portfolio. As a reminder, we hold all of our cash in Euros, but we hold it in a Swiss Franc entity. So monthly, we have to mark to market these Euros into Swiss Francs, and that incurs either a P&L charge or a gain. However, upon consolidation, this charge is reversed back into equity, so in effect there is a P&L effect, but there is no affect on equity to the Group. With respect to taxes, again, a mark to market adjustment has come into play. You know we are allowed to record deferred tax assets on the timing differences of our stock option programme, and that is very much tied to the price of our stock. Now, as a reminder, last March our stock was pretty much at an all time low. At the end of this March, our stock price was at pretty much an all time high. That deferred tax asset creation amounted to 270 basis points of credits in the tax line. We still believe that, all things being equal, our effective tax rate will be in the 16% to 18% range, for the medium-term. Our discontinued operations, nothing to speak of this year. This year is Montegrappa. Last year is our investment in BAT which we divested. As a consequence of all this, profit from continuing operations decreased 18% to €603m. This represents 12% of sales.

Let's move to cash flow from operations. Norbert touched on it. One of the key achievements of the year has been our ability to substantially increase our cash flow from operations in a pretty difficult environment. All of our Maisons, and I want to stress *all* of our Maisons, substantially reduced their level of inventories. Particular congratulations should be given to Cartier, who, as the biggest brand, had the most exposure and managed their inventories very, very well. Primarily due to the reduced inventories, we enjoyed a positive swing in working capital of €684m. Our rotation on gross inventories, despite the decline in sales, remained stable at 18.7 months. Another pleasing thing for the year is our receivables were tightly controlled and monitored. I'm pleased to say that our average recovery rates year-on-year have remained stable. Other non-cash items for the year increased, primarily due to long-term incentive plans and the recycling of certain hedge reserves.

Now let's now take a look at our fixed asset investments. Gross fixed assets for the year amounted to €151m, which approximated 2.9% of sales. Our investments were targeted to growth markets, such as China, the Middle East and other places in Asia Pacific. In addition, we continued to invest in our strategic movement manufacturer, Val Fleurier. Depreciation for the year amounted to €187m, well in excess of our net fixed assets of €147m. This, I think, reflects our cautious approach to the previous twelve months. For the current year, we estimate our gross fixed assets to be in the neighbourhood of 5% of sales, or back to levels that we've seen in previous years. A substantial increase will happen this year in our store renovation programme, as we sort of deferred last year our renovation programme, so we'll have a catch-up this year, and those investments will be primarily targeted to Cartier.

Let's go into some detail, on the next slide, of the types of investments that we had last year. 40% of our investments were made in the jewellery Maisons. 25% were made by our specialist watchmakers. By category, 60% of overall investments were related to our retail network. The most notable new retail projects this year were the Hong Kong 1881 Heritage location, which contains eight of our Maisons; the Cartier AIA Plaza Hong Kong boutique; a new flagship for Piaget in Shanghai; and the IWC Singapore Ion Orchard project. In addition, over a third of our spend was related to manufacturing, Val Fleurier, as I previously mentioned, and also the completion of the Jaeger Le-Coultre factory facility.

We are now left with the final operational element to discuss: free cash flow. Total free cash flow rose by €682m to €1.24bn. This has been achieved, as you've seen, by strong cash flow, reduced investments, lower tax payments, which are consistent with our lower operating results.

Now let's turn to our balance sheet. Richemont's balance sheet continues to be strong. Equity represents 73% of the total, compared to 65% last year. Our growth cash position, including investments, amounted to €2.3bn. After subtracting our structural operational debt, which is held in local currencies, our net cash position amounted to €1.9bn. Since 2007, we have maintained a conservative approach to investing this cash. We have invested our cash resources in the most highly rated banks and the most liquid, highly rated bond funds. We review our portfolios on a regular basis to minimise our risks.

Finally, let's review our dividend proposal. Our 2010 dividend proposal, to be confirmed by shareholders in September, is 35 centimes per share. As a reminder, this dividend will be paid in Swiss Francs and is subject to a 35% withholding tax. The proposed dividend represents a 17% increase on the previous year. This is consistent with our Board's view, which aims to provide steady increases in dividends per share, profits allowing. We strive for consistency and reliability in our approach. As always, we will keep sufficient resources available to provide for growth opportunities and investments, if conditions are right.

Thank you very much, and I would like to turn the presentation over to Richard for a summary.

Conclusion : Mr Richard Lepeu, Deputy CEO

Thank you, Gary. Before reviewing our long-term values, I would like to give you some colour on current trends although I would like to outline the fact that April is just the first month, and this month is not very important for our industry.

April reported sales were up 24% above last year, with retail up by 17% and wholesale up by 28%. Including Net-a-Porter, because now we consolidate Net-a-Porter, reported sales were up 28%. Main drivers, however, were easy comparatives. Another driver was the recent out-performance of wholesale retailers, with retailers starting to re-stock. You remember how our business model is impacted by the cycle of wholesale. Last year, wholesale greatly underperformed retail, and now wholesale is catching up. As a result, we will see better performance of the wholesale, with sell-in more important than the sell-outs. The good news, because there is sometimes good news, is that sales in Asia-Pacific continued to grow strongly. Wholesale in Asia-Pacific was up by 39% and retail by 53%, of course, helped by some store openings.

Finally, the month of April was also marked by the acquisition of the control interest in Net-a-Porter. Perhaps I would like to give you some details on Net-a-Porter. Natalie Massenet, the founder of this business, has created a unique and outstanding business. I encourage all of you, especially the men, because I'm sure the women already know the site, to visit our website. This is more than online shopping. Her website is like a fashion magazine, like a personal shopper offering fashion advice on the latest trends. Of course, Natalie Massenet is a true entrepreneur.

She founded this business ten years ago only. We would not have acquired Net-a-Porter had she not committed to stay for a long time.

The world is changing increasingly faster. Distribution of high-end products has and will continue to evolve. It is obvious that for high-priced products, like our products, shopping experience in a real store enabling interaction with sales associates, and physical contacts with brand's attributes, will remain the dominant form of distribution. However, the progress of technology -- look at the iPad for example -- is creating additional pent-up demand, as well as from the traditional clientele and from the new generation born with the Internet. We expect, therefore, online sales to grow dramatically over the coming years. Of course, as a result, we expect Net-a-Porter to be a very promising investment in itself, and beyond that, it is providing us with a unique knowhow and expertise that will be used within our Maisons. Because to go from clicks to bricks is not as easy as it looks. Net-a-Porter is already a profitable business with significant growth potential. We expect our investment in Net-a-Porter to be positive from a cash point of view this year, and profit enhancer at the operating level in three years' time.

Before we start our question and answer session, I would like to conclude the presentation by reminding you of the key strategic principles of our Group. The foundation of our Group is and will remain our Maisons. We do everything to develop and protect the uniqueness, the creativity and the authenticity of their products. The reason why, for example, we allow them to manage and control their own manufacturing activity and workshops is to make sure that they manufacture authentic and exquisite products. They develop their expertise and craftsmanship and, of course, offer the best quality. We give them time to grow steadily to their full potential.

Another key principle is the efficiency of our business model. What do we mean by that? We mean back-office, shared services, operating platforms, which are managed by Richemont, and which give us on the one hand leverage related to the volume and, of course, control of the activities of our brands on the other hand. Equally important, as a key principle, is the control of distribution. No doubt that we will go for more retail. First is the lesson from the crisis. It is clear that retail is more resilient. That trend is also driven by the evolution of shopping habits, which are more and more concentrated in key areas. Last but not least, it's a view that we have less, I will say, quality wholesale networks in the growth markets, which force us to open more stores.

Generally speaking, as said Norbert Platt, we'll go for 'less partners but more partnership'. You saw that we have reduced significantly our distribution in the United States, as we did previously in Europe, and we continue to do so. We look for future growth opportunities and notably continue to pioneer new markets by establishing group organisations in those markets with our leading brand, Cartier.

Last but not least, cash. We believe that cash is the best measure of long-term value creation. We like to say that cash is our fortress because more than ever, in troubled times, having cash is critical. It allows you to keep a long-term view, to finance investments, to increase your dividends and, of course, to seize opportunities as well.

In a nutshell, that is our roadmap to build an even stronger Group. Thank you, ladies and gentlemen, for your attention. Now we are ready to take your questions.

--------- End of Presentation---------