



## Financial review

RICHARD LEPEU, GROUP FINANCE DIRECTOR

Richemont has a clean balance sheet and a net cash position at the year-end of € 822 million

### Group results

in € millions	March 2009	March 2008 re-presented*	
<b>Continuing operations</b>			
Sales	5 418	5 290	+2 %
Cost of sales	(1 988)	(1 875)	
Gross profit	3 430	3 415	–
Net operating expenses	(2 448)	(2 297)	+7 %
Selling and distribution expenses	(1 235)	(1 177)	+5 %
Communication expenses	(644)	(608)	+6 %
Administration expenses	(542)	(522)	+4 %
Other operating (expense)/income	(27)	10	n/a
Operating profit	982	1 118	-12 %
Net financial (costs)/income	(101)	47	
Share of post-tax results of associates	3	1	
Profit before taxation	884	1 166	-24 %
Taxation	(133)	(194)	
Profit from continuing operations	751	972	-23 %
<b>Discontinued operations</b>			
Profit from discontinued operations, net of tax	325	592	-45 %
Net profit	1 076	1 564	-31 %
Analysed as follows:			
Net profit attributable to shareholders	1 075	1 565	-31 %
Net profit attributable to minority interests	1	(1)	
	1 076	1 564	-31 %
Earnings per share from continuing operations			
– diluted basis	€ 1.337	€ 1.710	-22 %
Dividend per share/unit			
	CHF 0.30	€ 0.78	n/a

\*Following the early adoption of the amendments to IAS 38 *Intangible Assets* as well as the reclassification of certain operations under 'discontinued operations', the results for the year ended 31 March 2008 shown in the table above have been re-presented. The impact of the re-presentation on sales is a reduction of € 12 million and an operating profit increase of € 10 million. The impact on net profit is a decrease of € 6 million.

## Financial highlights

- Sales increased by 2 per cent to € 5 418 million. Good growth in the first six months was largely offset by lower sales in the second six months as a result of the worldwide economic slowdown;
- Operating profit from the luxury goods businesses decreased by 12 per cent to € 982 million;
- Net profit attributable to shareholders decreased by 31 per cent to € 1 075 million. The decrease in net profit reflects in part the restructuring effected during the year. Profit from continuing operations decreased by 23 per cent to € 751 million;
- Cash generated by the Group's luxury goods operations was € 819 million. Richemont has a clean balance sheet and a net cash position at the year-end of € 822 million;
- During the year, Richemont restructured its operations, effectively spinning out its non-luxury assets to a new investment vehicle, Reinet Investments SCA ('Reinet'); and
- The Board has proposed an ordinary dividend for the year of CHF 0.30 per share. The reduction compared to the prior year primarily reflects the Group restructuring and the separation from the investment in British American Tobacco ('BAT'). For a former Richemont unitholder who continued to hold the Richemont, BAT and Reinet shares after completion of the restructuring, this means a small increase in dividend income.

## Review of Group results

### SALES

Sales increased by 2 per cent to € 5 418 million. The overall 2 per cent sales increase reflected 10 per cent growth during the first six months of the year, offset by a 5 per cent sales decline during the second six months. The decline was primarily the result of the worldwide economic crisis, with certain markets reporting very weak trading during the important pre-Christmas period. This was against the backdrop of strong trading in the second half of the prior year. Sales growth by region was mixed, with double-digit sales growth in the Asia-Pacific region and either low single-digit growth or lower absolute sales reported in other regions. At constant exchange rates, the annual sales increase would have been 2 per cent. Further analyses of sales developments are given on pages 32 to 34.

### GROSS MARGIN

The gross margin percentage decreased by 1.3 percentage points to 63.3 per cent. The decrease largely reflects the strengthening of the Swiss franc against the euro and higher raw material costs, which more than offset price increases. The economic slowdown in the second half-year also contributed to the lower gross margin as manufacturing fixed costs were spread across lower levels of production. The growth in sales revenue was offset by the lower gross margin percentage such that gross profit, at € 3 430 million, was in line with the prior year.

### NET OPERATING EXPENSES

Net operating expenses increased by 7 per cent. The increase in selling and distribution expenses largely reflected new boutique locations, primarily in the Far East. The 6 per cent increase in communication costs reflects the one-off impact of the costs associated with holding two Geneva watch fairs (Salons International de la Haute Horlogerie) during the year under review, as well as the impact of revisions to an accounting standard regarding the treatment of advertising material. Consequently, as a percentage of sales, communication costs were higher than the prior year at 11.9 per cent. Administration expenses increased by 4 per cent overall. Other operating expenses included restructuring charges linked to the closure of certain marginal boutiques, cutting excess capacity in specific manufacturing facilities and other cost control measures.

### OPERATING PROFIT

Operating profit for the year amounted to € 982 million, including the one-time items referred to above which amounted to € 79 million. Despite a significant profit increase in the first six months, weak trading in the second half of the year significantly reduced the level of gross profit. Swift measures taken to control operating costs in the second half-year resulted in the full-year operating profit decrease being contained at 12 per cent.

## Sales and operating results by business area



Sales and operating results of the Group's main areas of activity were as follows:

in € millions	March 2009	March 2008 re-presented	
<b>Sales</b>			
Jewellery Maisons	2 762	2 657	+4 %
Specialist Watchmakers	1 437	1 378	+4 %
Writing Instrument Maison	587	625	-6 %
Leather and Accessories Maisons	294	309	-5 %
Other Businesses	338	321	+5 %
<b>Total sales</b>	<b>5 418</b>	<b>5 290</b>	<b>+2 %</b>
<b>Operating results</b>			
Jewellery Maisons	777	765	+2 %
Specialist Watchmakers	287	374	-23 %
Writing Instrument Maison	69	126	-45 %
Leather and Accessories Maisons	(10)	(5)	-100 %
Other Businesses	(1)	16	n/a
	<b>1 122</b>	<b>1 276</b>	<b>-12 %</b>
<b>Corporate costs</b>			
Central support services	(139)	(146)	-5 %
Other operating expense, net	(1)	(12)	-92 %
<b>Operating profit</b>	<b>982</b>	<b>1 118</b>	<b>-12 %</b>

In the table above, those Maisons which are principally engaged in a specific business area have been grouped together. By way of example, those businesses which have a heritage as producers of high jewellery and jewellery watches – Cartier and Van Cleef & Arpels – are grouped together as 'Jewellery Maisons'. Their entire product ranges, including watches, writing instruments and leather goods, are reflected in the sales and operating result for that business area.

### JEWELLERY MAISONS

In a difficult trading environment, Cartier reported another record year in sales and profitability, with the pattern of sales around the world reflecting those of the Group as a whole. High jewellery sales, which are made exclusively through Cartier's own boutique network of 172 stores, were particularly strong, together with sales of high jewellery watches and *Ballon Bleu*. Sales of other products were broadly in line with the prior year. Van Cleef & Arpels reported good sales growth, albeit from a significantly lower base. Operating profit for the business area as a whole increased by 2 per cent to € 777 million. Operating margin for the business area was 1 percentage point lower at 28 per cent.

### SPECIALIST WATCHMAKERS

The Group's nine specialist watchmakers, which now include Roger Dubuis and Ralph Lauren Watches, enjoyed modest growth for the year as a whole. Sales at IWC, Vacheron Constantin and Jaeger-LeCoultre were particularly strong and all of the long-held

Maisons were profitable. During the year under review, a second SIHH took place in Geneva and the Group incurred specific charges relating to the acquisition of the Roger Dubuis business. These additional costs partly account for the reduction in profitability for the business area as a whole. Despite the decrease in profit and the increase in sales, the operating profit margin for the year was contained at 20 per cent. In January 2009, the joint venture with Polo Ralph Lauren premiered its product range; this had no impact on sales during the year.

### WRITING INSTRUMENT MAISON

Montblanc's sales decreased by 6 per cent. The growth from sales through the Maison's own boutique network was offset by a fall in sales to wholesale partners, in large part due to a strategy of cutting back the number of points of sale. An increasing proportion of sales were generated by leather goods, watches and jewellery lines and, for the first time in more than 100 years, writing instruments accounted for less than half of the Maison's sales. The additional costs of Montblanc's own boutique network, which were not fully compensated by retail sales growth, contributed to the 45 per cent drop in operating profit. Accordingly, the operating margin decreased from 20 per cent to 12 per cent.

The Montegrappa writing instrument business has been classified as a discontinued operation. The Group is actively engaged in negotiations to sell this business.

## LEATHER AND ACCESSORIES MAISONS

Despite growth in the Asia-Pacific region, Alfred Dunhill reported a modest decrease in sales and was close to breaking even for the second year in succession.

Lancel's sales were 8 per cent lower than the prior year, reflecting lower unit volumes as it continues to move to products with higher price points and improved margins. Largely as a consequence of the lower sales, Lancel's operating losses increased from € 4 million in the prior year to € 8 million in the year under review.

## OTHER BUSINESSES

Chloé's sales were well below the level of the prior year, leading to a lower level of profit.

Sales of this business area as a whole included the impact of acquisitions made during the previous financial year. These included watch component manufacturing businesses and the Azzedine Alaïa Maison. Overall operating profit in this business area fell significantly, largely due to the lower profitability at Chloé and losses from watch component manufacturing activities, including restructuring charges.

## CORPORATE COSTS

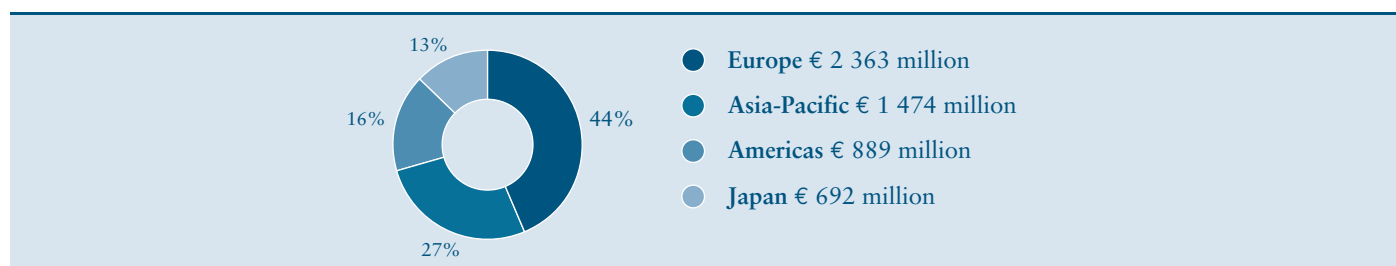
Corporate costs principally represent the costs of central management, marketing support and other central functions, as well as other expenses and income which are not allocated to specific business areas, including foreign exchange hedging gains and losses. Costs in the year included fees relating to the Group restructuring.

## OPERATING PROFIT

After corporate costs, Group operating profit amounted to € 982 million, a 12 per cent decrease compared to the prior year. This reflects the low level of growth in sales and the lower gross margin percentage, albeit compensated by continuing cost control. Favourable foreign exchange rate movements were offset by losses from the Group's hedging programme, reported as financing charges.

The Group's overall operating profit margin decreased from 21 per cent to 18 per cent.

## Sales by region



in € millions	March 2009	March 2008 re-presented	Movement at	
			Constant exchange rates	Actual exchange rates
Europe	2 363	2 284	+5 %	+3 %
Asia-Pacific	1 474	1 295	+14 %	+14 %
Americas	889	1 012	-11 %	-12 %
Japan	692	699	-12 %	-1 %
	5 418	5 290	+2 %	+2 %

## EUROPE

Sales in European markets increased by 3 per cent and accounted for 44 per cent of total turnover. The 3 per cent increase reflects a modest increase in established markets and double-digit sales growth in certain developing markets in the region, such as the Middle East.

## ASIA-PACIFIC

Sales growth in the region remained buoyant, although the rate of growth slowed during the course of the year. The strategic importance to the Group of the market in China was underlined by the continued expansion of the Group's distribution network there. Sales in the region now represent 27 per cent of total sales.

## AMERICAS

The Americas region reported a 12 per cent sales decrease for the year at actual exchange rates: the modest sales decrease in the first six months was followed by a very significant slowdown during the second half of the year as the economic difficulties there impacted consumer confidence and purchasing power. Sales in the Americas represent 16 per cent of total sales.

## JAPAN

The Japanese market remained challenging throughout the year, with sales in local currency terms 12 per cent lower than the prior year. The significant strengthening of the yen relative to the euro during the year largely offset this decrease in euro terms. Sales in Japan represent 13 per cent of total Group sales.

## Sales by distribution channel

in € millions	March 2009	March 2008 re-presented	
Retail	2 304	2 214	+4 %
Wholesale	3 114	3 076	+1 %
	5 418	5 290	+2 %

### RETAIL

Retail sales increased by 4 per cent to € 2 304 million. This growth reflected satisfactory trading at most established boutiques and the expansion of the network of Group-owned points of sale. Despite the closure of certain marginal boutiques, the total retail network increased by 58 to 1 370 boutiques at 31 March 2009. At the end of March 2009, the Group's Maisons owned 797 boutiques. A further

573 points of sale were operated under franchise agreements; sales to franchise partners are treated as wholesale sales.

### WHOLESALE

Wholesale sales increased by 1 per cent. The growth in the first six months was largely offset by the slowdown in the second six months, particularly among external watch retailers.

## Summarised income statement and results from discontinued operations

in € millions	March 2009	March 2008 re-presented
<b>Operating profit – continuing operations</b>	<b>982</b>	<b>1 118</b>
Net finance (costs)/income	(101)	47
<b>Profit before taxation</b>	<b>881</b>	<b>1 165</b>
Taxation	(133)	(194)
Share of post-tax results of associated undertakings	3	1
<b>Profit from continuing operations</b>	<b>751</b>	<b>972</b>
<b>Profit from discontinued operations</b>	<b>325</b>	<b>592</b>
<b>Net profit</b>	<b>1 076</b>	<b>1 564</b>
Attributable to shareholders	1 075	1 565
Attributable to minority interests	1	(1)
<b>Net profit</b>	<b>1 076</b>	<b>1 564</b>

### NET FINANCE (COSTS)/INCOME

Net finance charges amounted to € 101 million. The charges primarily relate to realised and unrealised losses on foreign exchange derivatives used to hedge the Group's net currency exposure. Financial income earned on deposits during the year was partly offset by structural borrowing costs. Compared to the prior year's net income of € 47 million, the change primarily reflects the impact of exchange rates on derivative hedging instruments.

### TAXATION

The Group's effective taxation rate was 15.7 per cent compared with 16.9 per cent last year. The effective taxation rate, which excludes the post-tax results from associates, in general reflects the level of corporate taxes in Switzerland. The lower effective taxation rate compared to the prior year reflects the decrease in profitability during the second six months of the year, particularly in the Americas, Germany and Japan.

### ASSOCIATED UNDERTAKINGS

The Group has a number of small investments which are classified as associated companies. The Group's share of the results of these smaller investments amounted to a profit of € 3 million.

### DISCONTINUED OPERATIONS

Until 20 October 2008, the Group's principal associated company was British American Tobacco plc ('BAT'). As a result of the transfer of the Group's former 19.5 per cent interest in BAT to Reinet on

that date, the Group's interest in BAT has been treated as a discontinued operation.

The Group's share of the results of BAT decreased from € 609 million in the prior year to € 355 million in the year under review. The decrease primarily reflected the inclusion of six months and 20 days of attributable profit from BAT in the year under review but a full twelve months' contribution in the prior year. In addition to the shorter accounting period, other changes impacting the result include the Group's effective interest in BAT, which had increased due to the share buy-back programme carried out by BAT from 19.1 per cent at April 2007 to 19.5 per cent upon separation, the higher reported profit of BAT in sterling terms and foreign exchange translation effects. The Group's share of results from BAT is reported net of taxation and minority interests. Further information in respect of BAT can be obtained from that company's website: [www.bat.com](http://www.bat.com)

Losses from other discontinued operations amounted to € 30 million (2008: € 17 million). Management is actively involved in the disposal of two small business units, including Montegrappa.

### EARNINGS PER SHARE

Richemont's total diluted earnings per share decreased from € 2.750 to € 1.916. From continuing operations, Richemont's diluted earnings per share decreased by 22 per cent from € 1.710 to € 1.337.

## Cash flow

in € millions	March 2009	March 2008 re-presented
Operating profit including losses from discontinued operations	951	1 101
Depreciation, amortisation and other items, net	229	134
Increase in working capital	(361)	(267)
<b>Cash generated from operations</b>	<b>819</b>	<b>968</b>
Dividends received from associate	343	325
Net interest received	36	41
Taxation paid	(179)	(171)
Net acquisitions of tangible fixed assets	(293)	(265)
Net acquisitions of intangible assets	(43)	(30)
Other investing activities, net	(127)	(102)
<b>Net cash inflow before financing activities</b>	<b>556</b>	<b>766</b>
Dividends paid to shareholders	(438)	(701)
Ordinary dividend	(438)	(364)
Special dividend	–	(337)
(Decrease)/increase in borrowings and other financing activities	(59)	69
Distribution of discontinued operations, net of cash disposed of	(351)	–
Net cash flow in respect of treasury units and shares	(84)	(37)
Exchange rate effects	(32)	51
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(408)</b>	<b>148</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>1 771</b>	<b>1 623</b>
<b>Cash and cash equivalents at end of year<sup>(1)</sup></b>	<b>1 363</b>	<b>1 771</b>
Borrowings	(541)	(525)
<b>Net cash at the end of the year</b>	<b>822</b>	<b>1 246</b>

(1) Cash and cash equivalents are as per the consolidated cash flow statement on page 59.

The Group's net cash position at 31 March 2009 was € 822 million compared with € 1 246 million twelve months earlier. The decrease in net cash largely reflects the distribution of € 351 million to Reinet as part of the Group restructuring. In other respects, cash generated from the luxury goods business during the year, after capital investments and taxation payments, was more than offset by the payment of ordinary dividends to unitholders in September 2008 and the acquisition of Roger Dubuis.

Cash generated from operations totalled € 819 million for the year. The increase in working capital was largely due to higher inventories of finished goods and movements in year-end creditor balances. The increase in inventories, which followed the slowdown in the second six months, was limited by the measures taken to reduce manufacturing output.

Dividends received from the Group's associate, BAT, comprised the final dividend in respect of its financial year ended 31 December

2007 and the interim dividend for the 2008 financial year. The total cash received, amounting to € 343 million, was attributed to Reinet as part of the restructuring in October 2008 and is included in the figure reported above as a distribution of discontinued operations.

Net acquisitions of tangible fixed assets amounted to € 293 million. This amount included investments in the Group's network of boutiques as well as the further investment in the Maisons' manufacturing facilities. Other investing activities largely reflect the acquisition of a controlling interest in the Roger Dubuis business.

In order to hedge executive stock option grants, the Group exercised options to purchase former Richemont units for a consideration of € 45 million and bought further shares and call options over Richemont 'A' shares. The cost of these purchases was partly offset by proceeds from the exercise of stock options by executives and proceeds from the disposal of excess BAT and Reinet shares following the Group's restructuring.

## Summarised balance sheet

in € millions	31 March 2009	31 March 2008 re-presented
<b>Non-current assets</b>		
Fixed assets	1 534	1 207
Investment in associated undertakings	14	3 008
Other non-current assets	628	499
	2 176	4 714
<b>Net current assets</b>	2 028	1 827
<b>Net operating assets</b>	4 204	6 541
Net cash	822	1 246
Cash and cash equivalents	1 363	1 771
Borrowings	(541)	(525)
Other non-current liabilities	(191)	(168)
	4 835	7 619
<b>Equity</b>		
Shareholders' equity	4 832	7 615
Minority interests	3	4
	4 835	7 619

Following the Group restructuring, shareholders' equity was significantly reduced. The balance sheet at 31 March 2009 no longer reflects the carrying value of BAT shares (2008: € 2 998 million) or the cash and other smaller non-luxury investments attributed to Reinet on 20 October 2008. The carrying value of BAT was formerly included in associated undertakings.

Other non-current assets at 31 March 2009 include shares in BAT and Reinet held to hedge liabilities arising from modifications to the Group's long-term stock option plan. Following the restructuring, most holders of vested options over the former Richemont 'A' unit received instead options over the new Richemont 'A' share and over shares in BAT and Reinet. This treatment of vested options was in line with the treatment received by external unitholders. Unvested options over the former Richemont 'A' unit were replaced by options over the new Richemont 'A' share only. In both cases, there was no change in the value of the related benefit. Richemont 'A' shares held in treasury are reported as a deduction from shareholders' equity.

Net current assets increased by € 201 million compared to March 2008. The value of net inventories increased by € 346 million to € 2 422 million. The inventory increase reflects an increase in finished goods as well as the acquisition of Roger Dubuis and exchange rate effects. As a result, the inventory rotation rate has slowed by 2.3 months to 18.7 months. The increase in inventories was partly offset by an increase in current liabilities, largely relating to derivative financial instruments to hedge foreign exchange rates and share option exposures.

At 31 March 2009, net cash amounted to € 822 million. Cash balances were primarily denominated in euros, whereas borrowings were spread across the principal currencies of the countries in which the Group has significant operations, namely, yen, US dollars, Hong Kong dollars and Chinese renminbi. Borrowings reflect the financing of net operating assets in the countries concerned.

Shareholders' equity amounted to € 4 832 million, net of the cost of repurchased treasury shares and related instruments. These treasury shares are held as a hedge against the exercise of executive share options. At 31 March 2009, the Group held 17.5 million treasury shares, representing 3.4 per cent of the total number of the 'A' bearer shares in issue, plus the right to acquire a further 3 million shares.

### Proposed dividend

The Board has proposed an ordinary dividend of CHF 0.30 per share. Net of withholding tax at 35 per cent, the net dividend payable will be CHF 0.195 per share.

The reduction compared to the prior year primarily reflects the Group restructuring and the separation from the investment in BAT.

The dividend will be payable following the Annual General Meeting, which is scheduled to take place on Wednesday, 9 September 2009. The currently anticipated dividend payment dates are as follows:

'A' share dividend: Monday, 14 September 2009. The dividend in respect of Richemont 'A' shares is payable in Swiss francs.

South African Depository Receipt dividend: Friday, 25 September 2009. The South African Depository Receipt dividend is payable in rand to residents of the South African Common Monetary Area ('CMA') but may, dependent upon status, be payable in Swiss francs to non-CMA residents.

### Business structure and strategy

Compagnie Financière Richemont SA is the ultimate holding company for some of the world's leading luxury goods companies, encompassing jewellery, watches, writing instruments and other luxury products.

The Group's luxury businesses operate globally and are structured in four main business areas, each focusing on a specific aspect of

the business – jewellery, watches, writing instruments and leather and accessories. A fifth business area includes smaller businesses and component manufacturing activities.

The Group's largest market is Europe, which generated 44 per cent of sales during the year under review. Details of sales by geographic region are given on page 33 of this report. The Group believes the diversity of its geographical operations, with a lack of dependency on any one market, represents a long-term competitive advantage.

Maintaining and enhancing the tradition, heritage and character of the Maisons is critical to ensuring the future development and success of the Group. Product quality is paramount. Each Maison also focuses on increasing awareness and desirability by developing creative products and marketing programmes and anticipating future market trends. The Maisons' products are sold through a network of boutiques owned by the Group, through franchise operations and through boutiques owned by third parties.

### Factors affecting results

The Group's products can be considered discretionary purchases. Declining confidence in local or international economies can therefore impact consumer spending. Global events such as regional conflicts, terrorism, disease and natural disasters may also affect the consumer's willingness to purchase luxury products.

The products sold by Group companies rely on the considerable skill and craftsmanship of their employees and on the availability of components from suppliers. Suppliers, likewise, are dependent on the availability of skilled labour. The recruitment, training and retention of craftsmen is therefore a long-term investment, both for the Group and its suppliers.

Attracting and retaining creative, management and craft talent are critical to the Group in meeting its long-term objectives. The Group has developed global human resources strategies in concert with the Maisons and the regional platforms to attract, retain and motivate talented individuals. Performance objectives are established between the Group, Maisons and platforms and are reviewed annually.

The Maisons manufacture their products in western Europe, primarily in Switzerland, France and Germany. Some 56 per cent of Group sales are made outside Europe, exposing the Group to significant foreign exchange risk. Fluctuations in exchange rates may be compensated by the pricing applied to products. The Group also uses a variety of short-term and long-term hedging strategies to further safeguard its assets and operational cash flows against such risks. The gross exposure to sales in these foreign currencies is partly offset by local operating costs and, in the case of the US dollar, purchases of diamonds, gemstones and precious metals. Short-term strategies include the twelve-month forward sale of foreign currencies, particularly the US dollar, the Hong Kong dollar and the Japanese yen, against the Swiss franc and euro. The rolling twelve-month programme aims to hedge forward some 70 per cent of the Group's forecast net exposure in these key currencies. Longer-term hedging strategies include borrowing in local currency to finance local assets.

Labour and other production costs represent the principal element of the Group's cost of sales. Raw material costs are an important element. Prices of precious stones, gold and other materials vary, dependent on international market prices.

Whilst short-term foreign currencies and manufacturing cost fluctuations may be absorbed, the Group seeks to maintain its margins through price adjustments, wherever possible, to reflect the impact of more sustained movements in foreign exchange rates.

Up to 20 October 2008, the Group equity accounted its interest in BAT, an associated undertaking. In the consolidated financial statements, that former interest is now presented as a discontinued operation.

### Critical accounting policies and estimates

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). The accounting policies are presented in full on pages 60 to 67 of this report. The following are the critical accounting policies requiring significant judgements and estimates.

Revenue is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Where there is a practice of agreeing to customer returns, accumulated experience is used to estimate and provide for such returns at the time of sale. Sales returns amount to some 3 per cent of gross sales. At the time of sale, the Group also records estimates for a variety of sales deductions, including target bonuses, early payment discounts, commissions related exclusively to wholesale sales and other incentives. Target bonuses and third-party commissions relate to negotiated programmes with the wholesale trade and are generally accrued as a percentage of gross sales. Early payment discounts, which vary based on region, are offered to encourage prompt payment of trade balances. The Group records these deductions based on management's best estimates of individual programmes in the individual regions. The difference between gross and net sales is historically 1 per cent of gross sales.

The Group provides for income tax it expects to pay on its profits. Operating throughout the world, it is subject to differing tax codes and administrative practices. Amounts provided are based on management's interpretation of country-specific tax rules.

In accordance with IFRS, goodwill represents the excess of the cost of a business combination over the fair value of the identifiable net assets of the acquired business at the date of acquisition. Goodwill is subject to an annual impairment review. The recoverable amount of goodwill is determined by discounting the future cash flows generated from the continuing use of the Maison to which the goodwill is allocated. The intellectual property rights relating to trade names associated with the Group's principal Maisons are not reflected in the Group's consolidated balance sheet, however, as these rights were carried at nil in the Group's balance sheet prior to the adoption of IFRS in 2005.



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GENEVA, 14 MAY 2009