
Richemont

Interim Results FY11

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PRESENTATION: Mr Gary Saage, Group CFO

Good morning everyone. Welcome to the Richemont half-year results presentation. As normal, Sophie Cagnard, our Head of Investor Relations, and myself will take you through the slides. We're joined today by our Chief Executive, Mr Johann Rupert and our Deputy Chief Executive, Mr Richard Lepeu, who will no doubt take your questions after the presentation. Welcome to all of you in the hall, and welcome to all of you on the World-Wide Web. We've enjoyed solid growth in an uncertain environment in the first half. Equity markets continue to be weak, as attention remains on the continued headwinds facing the world economies. Our main concern relates to the Euro zone, as well the US, with growing recognition that deleveraging will take place for years. Prospects for growth are now questioned in the growth markets. Prices of precious materials continue on an upward trend. Currencies have been adverse for most of the six-month period. Volatility now, we believe, is a daily part of our lives.

Let's look at our financial highlights. Sales up by 29%, 36% at constant currencies. We had solid growth across all businesses and all regions. Retail continues to outperform wholesale. This is due to our Net-a-Porter investment, our product creativity and the attractive stores that we have in desired locations. Second, our increase in operating profit and operating margin, we achieved 25.5% in the first half of sales. This reflects strong pricing power of our Maisons, our manufacturing efficiencies and the operating leverage that we enjoy from our business model. Having said that, we did experience higher sales than we thought for the first half. Finally, the responsiveness of our colleagues in a volatile environment also helped our results. This was all achieved despite a 9% appreciation in the Swiss Franc, and higher precious material costs, which impacted gross margins negatively. We did enjoy consistent cash flow from operations, achieving €606 million. This reflects our good results and the continuation of our short-term investment plans.

Let's go to the sales. First, Europe, our number two region, representing 36% of sales, of group sales. Europe achieved a 22% constant currency growth in total. Sales in Western Europe alone grew by 19%, and it was primarily a reflection of organic growth, as few stores were opened in this region. The sales growth was driven primarily by travellers and the increased weight of Net-a-Porter in this region. However, all Maisons improved their sales versus the year ago period. Sales in Russia and the Middle East grew at a stronger rate than Western Europe as a whole.

Let's move to Asia-Pacific. Asia-Pacific is now our number one region, representing 41% of group sales. The growth has been driven primarily by Mainland Chinese. China itself grew by 64% in the period. It is now our third largest territory after Hong Kong and the US, and it represents 10% of group sales. We've had increased penetration in Mainland China through the selective expansion of our retail network. Our retail network in China now represents 323 stores. We've had broad-based growth across the region, however. Singapore, Taiwan and Korea performed equally well. Hong Kong, Macau and Mainland China were above the growth of

those three markets. From a channel perspective, retail was particularly buoyant, partially boosted by the opening of 43 stores, including the internalisation of external stores as well.

Let's turn to America. The growth was in line with last year, 35% at constant currency rates, versus 37% last year. This growth was exceptional, we believe, despite challenging comps. The performance of Richemont in the United States reflects the quality of our operations, good execution of our distribution strategy, and productivity gains in both networks. The growth in retail was primarily organic, and the growth in wholesale was done with less partners, but more partnership with those partners. The performance was also augmented by much higher jewellery sales in the region, particularly at Van Cleef & Arpels. The High Jewellery sales there were exceptional. Domestic tourism also helped in the US, more so domestic than international.

Moving onto Japan. Given its lower growth rate, it's now our third largest region of the group. It represents 9% of group sales. It has shown remarkable resilience, given the events that occurred in March. The growth was a function of Bridal. The Bridal sales for Cartier and Van Cleef were exceptional. Van Cleef enjoyed strong High Jewellery sales, and the Specialist Watchmakers performed well also. It doesn't change our view however, that Japan is unlikely to register strong growth in the future.

Let's move to our sales by network. Retail sales enjoyed a particularly high momentum, thanks to good performance at Net-a-Porter and all of our Maisons' boutiques. We expanded the retail network, particularly in Asia-Pacific, and we allocated our product to favour our directly owned stores. Wholesale growth was pretty broad-based across all regions. Inventory levels remained at an extremely low level in the channel. The group generated 49% of its sales through its own retail network. This is positive for us from a supply chain perspective, because we get faster feedback on the success or difficulty of our product launches.

Before I turn it over to Sophie, who's going to take you through the individual segments and Maison highlights, which I know you all enjoy, I want to give you the main points to focus on in the first half. We had record profitability for the Jewellery Maisons. We had commendable profitability for the Specialist Watchmakers. We had stable profitability at the Montblanc Maison. Fashion and accessories is profitable and continues to improve. Net-a-Porter enjoyed good sales momentum, and it was cash positive on an operating basis. Now I'm going to turn it over to Sophie to give you the details of the Maisons.

PRESENTATION: Mrs Sophie Cagnard, Head of Investor Relations

Good morning. We'll start with the Jewellery Maisons. Sales rose by a robust 34%, in line with last year. Operating contribution increased to 734 million, first leading to an operating contribution margin of 34%. Both Cartier and Van Cleef & Arpels performed extremely well, breaking new records. Cartier is as strong as ever, and Van Cleef & Arpels substantially improved its profitability of the last year. As consistent with previous years, we expect profitability for the whole year for the Jewellery Maisons to be lower than in H1. Let's look at the main product in retail and wholesale developments within the Jewellery Maisons.

First, we'll start with Cartier that enjoyed a broad-based double-digit growth in sales across geographies, product lines and channels. Bridal, Bijoux, High Jewellery, gold and High Jewellery watches were particularly successful, with a special mention for Calibre watches and Ballon Bleu, Cartier's most successful watch line ever. The launch of the High Jewellery collection Sortilège, was also very well received. Strong retail sales for all product lines were supported by a dynamic and selective network. Indeed, Cartier continued to upgrade its distribution network with the net openings of four stores, mostly in Asia-Pacific and the Middle East. At the end of September, there were 297 Cartier stores in the world, 37 of which in Mainland China. Cartier also carried out 17 major renovations. Its wholesale network was streamlined further. Finally, this prestigious Maison benefited from impactful PR events, such as the exhibition of a Cartier Time Art in Zurich now in Zurich, but very soon in Singapore. Or the High Jewellery event in Rome for the unveiling of its Sortilège collection.

Next, let's have a look at Van Cleef & Arpels, which also enjoyed excellent growth in sales, thanks to both its jewellery and watch offer. High jewellery sales continued on a high note with Les Voyages Extraordinaires collection, as well as the recently introduced Bals de Légende collection. Bijoux sales were driven by the Alhambra collection, but was further enriched with a vintage Pink Gold offer. Watch sales were boosted by the Charms Mini line. Van Cleef & Arpels further expanded its retail network, which now includes 87 boutiques. Visibility and awareness were further enhanced with prestigious events such as the exhibition in New York at the Cooper-Hewitt Museum, or the high profile launch of the Bals de Légende High Jewellery collection at Buckingham Palace. Here on the slide is the new ad campaign.

Now we look at our Specialist Watchmakers. All Maisons enjoyed excellent growth in sales. Our Maisons' pricing power and operating leverage helped mitigate the decline in gross margin, resulting from a strong Swiss Franc and higher materials costs. Remember that all components in our watches are made in Switzerland, with the exception of Lange & Söhne, made in Germany. As a result, operating contribution rose to €312 million, and the contribution margin reached 27% of sales, which is slightly below the 29% of sales of September 2010. We are pleased to tell you that Baume & Mercier's restructuring is progressing according to plan. Let's

look at the main product and network development of the watch Maisons over the past six months.

Piaget's excellent performance was driven by retail and Asia-Pacific. In terms of product lines, Altiplano is more than ever Piaget's bestselling collection, confirming Piaget's leadership in ultra-thin watches. In jewellery, new models in the Limelight Garden Party collection, launched at spectacular events in France, UK, Germany and Korea, were very well received. Possession Bijoux were promoted by a strong digital campaign, efficiently using social media such as Facebook or YouTube. This campaign features actress Jessica Alba as a new brand ambassador. A new advertising campaign targeted at women was also introduced in September. Finally, to raise further its profile, Piaget struck a partnership with the third Beijing International Polo Open Tournament. Piaget's retail network was further strengthened with five openings, one in Macau, two in Hong Kong, one in Guangzhou and one in Paris Galeries Lafayette, to reach 76 boutiques worldwide.

Now, let's look at Lange & Söhne. It enjoys strong growth across all markets. This half year saw meaningful line extension and striking complications, with Richard Lange Tourbillon 'Pour le Mérite', Zeitwerk Striking Time, and the redesigned and extended Saxonia collection. Lange & Söhne continued to upgrade its sales organisation with strengthened local teams and a new boutique in Hong Kong.

If we now look at Officine Panerai, its solid growth in sales was a result of retail, Asia-Pacific, and the sustained growth of the Manifattura collection, which is a collection with in-house movements, and high-tech materials for cases. In particular, the 3 Days Automatic Movement family, which is P.9000, like the Luminor Marina 1950 3 Days Automatic, which is pictured here on the slide, and models with ceramic and composite cases. Officine Panerai continued its retail network expansions with openings in Milan and Nagoya, whilst maintaining a very selective distribution for wholesale with around 500 external points of sale. Finally, its Time and Space exhibition in Shanghai generated excellent press coverage with over 250 VIP customers invited, and 5,500 visitors in just two weeks.

Now, let us move on to Baume & Mercier, that opened a new chapter in its history, following last year's restructuring. The Maison enjoyed robust sales, thanks to the success of the traditional Classima line, and the regenerated Capeland and Linea collections. It also made important investments in communication to restore its image and awareness. The new brand concept, "Seaside Living in the Hamptons", was rolled out worldwide at point of sale level through the advertising campaign, e-marketing, e-communication and PR events. The promising welcome of a new collection from our partners, which are the retailers and media, and our end clients, lead us to target break even at contribution level for the full year.

Moving on to Vacheron Constantin, which saw solid growth in sales, especially in Asia and North America, helped notably by the highly successful Patrimony line. Vacheron Constantin

maintain a highly selective distribution policy, whilst opening its first store in the Americas, in New York on Madison Avenue, and serving less than 400 carefully selected external points of sale. The Maison also pursued investments in manufacturing to cope with mounting shortages. Finally, it opened its first Grand Heritage exhibitions: “Treasures of Vacheron Constantin, a Legacy of Watchmaking since 1755” at the National Museum of Singapore, with close to 200 timepieces exhibited. This exhibition attracted over 25,000 visitors.

Let's now turn to Jaeger-LeCoultre. The Specialist Watchmaker enjoyed a strong performance, which was driven by retail and strengthened partnership with wholesale. In terms of geography, Asia-Pacific, especially China and Hong Kong, outperformed. Switzerland, France and United Kingdom performed well. The period was marked by strong demand for classic timepieces, among which Complication and Grande Complication, which have registered the greatest demand. Let me give you four examples of successes. The Reverso Ultra Thin tribute to 1931, the Duomètre à Quantième Lunaire, Memovox Tribute to Deep Sea, and Master Grande Tradition à Grande Complication. Its retail network expanded to 41 boutiques, of which Hong Kong, Macau Galaxy, Mexico and St. Petersburg. Jaeger-LeCoultre expanded its manufacturing facility, with an additional 8,000 square metres.

Now, IWC, that posted marked growth in all regions, leading to record sales. This was partly driven by the re-launched Portofino line. To highlight its technical expertise, the Specialist Watchmaker introduced its new Portuguese Siderale Scafusia through a major press launch at the ESO Observatory in Chile. It further invested in retail. Its retail network now includes 38 boutiques.

Finally, Roger Dubuis. Roger Dubuis saw a commendable increase in sales, supported notably by the Excalibur Double Tourbillon Skeleton, and the new Excalibur Lady collection. These models with diamonds are actually Roger Dubuis' bestselling models in the world. Roger Dubuis improved its market presence with two new boutiques in Macau and Singapore, and its visibility and desirability with a new brand ambassador, Scottish actor Gerard Butler.

We now turn to Montblanc, the Montblanc Maison. The 10% increase in sales was mainly driven by watches and leather, as well as by Asia-Pacific, Americas and the Middle East. Retail and wholesale performed equally well, which is noteworthy given the tough comparatives for retail and the ongoing resizing and upgrading of the wholesale network, mostly affecting pens' distribution. Operating contribution rose by 13% to reach 16%, which is the same margin as last year. Let's look at the main developments at Montblanc. Montblanc sales growth reflected sustained demand for leather goods and watches, in particular for the Nicolas Rieussec Chronograph and the TimeWalker LL100, which are models with in-house movements. The Montblanc Villeret Tourbillon Bi-Cylindrique was also acclaimed by collectors in Haute Horlogerie. Sales of writing instruments were supported by limited editions and new creative concepts, like the Tribute to the Mont Blanc. Montblanc's ongoing upgrade of its wholesale and retail network focuses on renovating or relocating existing stores, meaning the goal being to

upgrade rather than to expand, and on streamlining further its wholesale distribution. Finally, Montblanc is raising its visibility and appeal for special events, such as a travelling exhibition in major cities, celebrating the invention of the Chronograph, by Nicolas Rieussec, and the Culture Arts Patronage Awards, which is now seen in twelve countries.

Now finally the other business area. You remember that this segment comprises our fashion and accessories Maisons, Net-a-Porter, and the facilities involved in the manufacturing of components for watches for third parties, and also for our Maisons. The fashion and accessory business generated a €23 million profit, up from the €7 million profit of last year. The performances of Alfred Dunhill and Chloé were particularly noteworthy, benefiting from strong operating leverage. Net-a-Porter recorded a €21 million operating loss. This can be attributed to the amortization of intangibles, and higher investment in platforms, as well as to a less buoyant UK market. Growth in sales remain well above group rates. On an operating basis, it was cash generative. Losses of the Group's watch component manufacturing activities were contained to a similar level as last year. This was due to further investments in vertical integration, mitigated by larger volume and improved know-how.

So we now look at Alfred Dunhill. It enjoyed significant sales growth across markets and channels, supported by leather with the Chassis and Bladon collections, and also supported by Menswear, and was efficiently advertised in its Voice advertising campaign. Alfred Dunhill continued to carefully expand its retail network, now numbering 223 stores, with the opening of Grand Gateway in Shanghai, and KLCC Kuala Lumpur. The deployment of ERP, retail and merchandising systems continues.

Let us move on to Lancel, which saw double-digit growth in sales across all channels. While consolidating the success of the BB, Adjani and Premier Flirt bags, Lancel launched the Daligramme. Lancel also pursued investments in key markets and renovated selective stores in Paris on the Champs-Élysées, while opening a new store in Moscow Stoleshnikov. It also set up direct operations in China. Great progress was made in deploying new IT systems: ERP, retail point of sale and SAP to help sales grow further.

Chloé: the Maison posted double-digit sales growth, fuelled by Europe, Asia-Pacific and leather. Handbag sales were supported by bestseller Paraty, Marcie and newcomer Madeleine. With the arrival of Clare Waight Keller as a new Maison designer, the reorganisation of design, retail and operations is now complete. The summer collection, designed by Clare and presented last month was positively received.

Finally, Net-a-Porter. It enjoyed strong sales growth, well above group rates, even without any physical presence in Asia yet. Net-a-Porter further expanded and automated its UK platform, and expanded its US warehouse to face higher demand from Net-a-Porter, The Outnet and Mr Porter. Regarding Net-a-Porter, its main features during the period were the introduction of an interactive world map showing live customer activity, as well as a wish list alert. It further

enriched its offer by adding Dolce & Gabbana, Coach and Claudia Schiffer products; and raised its profile by launching a number of PR initiatives, such as having Gwyneth Paltrow's website as a temporary affiliate, or having a major full winter print campaign with major magazines. It now counts 560,000 Facebook fans. The Outnet enjoyed particularly strong growth, while Mr Porter, which was launched in February, is growing nicely with higher sales volume every day.

I will now hand over to Gary.

PRESENTATION: Mr Gary Saage, Group CFO

Thank you, Sophie. As always, you're much better at going through the Maisons' accomplishments than I am. Thank you very much. It's all left to me now to just take what Sophie has done and add it all up. So let's do that. Let's look at the operating profit first. We had solid sales increases of 29%, 36% at constant currency. Our gross profit rose by 26%. We contained our underlying growth in operating expenses. All of these activities led to an operating profit increase of 41% to €1,075 million. The operating margin achieved a record of 25.5% in the first half.

Let's dive into the details of gross margin and expenses. As I said, gross margin rose by 26% to €2.7 billion. This represents 63.2% of sales. We did have a 160 basis point decline versus the prior year. What is this a result of? We have the continued dilution effect of Net-a-Porter, because as you know, Net-a-Porter is a different business model than our integrated brands. We had adverse foreign exchange affecting our sales. We had a stronger Swiss Franc. That affected our costs. We had higher precious material costs on the stones and gold, and we also had higher component costs as well. We tried to mitigate these factors generally by the pricing power of our Maisons. We enjoyed positive manufacturing efficiencies, and we also recorded a hedging gain of €70 million within the gross margin. I'll discuss hedging a little further in the presentation.

Let's move on to expenses. Our expenses grew by 18%, or 17% at constant currency, well below the sales growth. The ratio of our expenses was reduced to 38% of sales, versus 42% a year ago. You'll see on the slide, we have a bridge from September of last year to September of this year. Let's go through that. Net-a-Porter added 3% on the expense base, primarily due to Mr Porter and expansion of the UK platform, as Sophie mentioned. Remember, Mr Porter did not start until our fourth fiscal quarter of last year. We opened up new boutiques. That added 7% to the expense base. We increased our communication spend, in line with sales. That added 5% to the expense base. All other expenses, which are selling and distribution without boutiques and administration grew by 4%. We enjoyed a foreign exchange benefit of 1%. S & D costs in general were 56% of our total operating expenses. They rose by 17%.

We opened up 43 new stores net, mostly in Asia-Pacific. Excluding boutiques and Net-a-Porter, the underlying growth of S & D was 11% on a comparable basis. Communication cost, as I said,

up 29%, in line with sales. The ratio is currently 8% of sales. As usual, we expect a larger spend in the second half, due to Christmas, SIHH, Chinese New Year, and we expect the yearly ratio to land somewhere between 10% and 10.5%. Administration costs were up 9%, but 7% on a constant currency basis. This underlines the efficiency of our business model, and increased expansion of our activities in Asia.

Let's move on to net finance-, sorry, excuse me, one page over. Net profit now, let's look at the items below operating profit. I'm going to deal with finance cost in the slide that follows. Our effective tax rate was 16.4%, generally in line to last year's full-year rate of 16.7%. For the year as a whole, we expect the rate to approximate 16.4%, between 16% and 17%, all elements being consistent with current conditions. As you know, our tax rate can be somewhat volatile based on exchange and our stock price and what have you. We continue to expect a normalised tax rate for the medium term of 17% to 18%. Due to much higher finance costs, which I'm going to get into in the next slide, and the non-recurrence of last year's accounting gain related to the Net-a-Porter acquisition, our net profit for the year rose by 10% to €709 million.

I wanted to provide for everyone some detail on our net finance cost, a little more than we have in the past. As normal, given the strength of the Swiss Franc, we incurred non-cash losses on our cash, related to mark-to-market adjustments. These amounted to 153 million in the period, versus 119 million last year. I've broken that out separately for you. The second element is our hedging policy remains consistent. We hedge 70% of our cash flows in and out of Switzerland on a net basis. We've been consistent, and we've been doing that for a number of years. What we have done, however, is change the accounting for hedging. We did an analysis, and what we found is generally, the hedges can be recycled six to nine months after the actual flows occur. It wasn't really matching properly, so what we've decided to do, is for all new contracts effective April 1st of this year, we will no longer apply hedge accounting to it. So what that means is, the contracts are mark-to-market every month and any gain or loss is immediately taken into the P&L in finance cost. We will no longer defer the contracts in equity until they recycle a year later, okay? What we've done there, and you can see it on the slide, is the effect of that change on all new contracts as of April 1st, accounted for a €46 million charge.

So what this means is, going forward, the gross margin will be clean. It won't take into account any hedging gains or loss. They will all be recorded in finance costs. Now we expect the contracts booked prior to April 1st will be recycled by probably August of next year, okay? So we will continue to report for you the mark-to-market items here in net finance costs until the prior contracts recycle.

Moving onto cash flow. On par with last year, a result of increased inventory investments, higher receivables due to increased sales, increased gains from our hedging programme, as I discussed, we recorded a €70 million gain in margin, relating to the hedging. Our inventory rotation was reduced to 15.9 months, versus 17.7 last year. So inventories are a bit under stress,

I would say. Accounts receivable continues to be positive. Our recovery rates actually improved over the high rates of last year.

Let's look at our fixed asset investments. Gross investments in property, plant and equipment rose 87% to €140 million, or 3.3% of sales. We had increased investments in our manufacturing facilities, we had increased stores, new stores, mostly in Asia-Pacific. We expanded and automated our distribution platforms, mostly associated with Net-a-Porter in the UK. We will continue to roll out our investment programme. We anticipate that fixed assets this year will rise to 7-8% of sales. We said in May 6-7%, we have found some opportunities on the retail side, and we expect that the fixed asset investment will be 7-8% this year. Next I want to get into some detail for you on the fixed assets. By category, 41% of the spend related to retail. The most notable retail projects were new Cartier stores in Hangzhou and Seoul, and the renovation of the One Peking Road location in Hong Kong. Van Cleef established their third home in the Prince's Building in Hong Kong, opened two months ago. Piaget opened up a store in Macau Galaxy. Jaeger introduced a new store in Hong Kong Heritage, and Panerai opened up in Milan. It should be noted as well that Vacheron Constantin opened their first retail boutique on Madison Avenue in New York. 31% of our total spend was from manufacturing, and the remaining 28% relates to distribution platforms, IT and Net-a-Porter.

Let's move to free cash flow. Total free cash inflow remains broadly in line with last year at €25 million. The higher cash flow from operation financed the higher investments in property, plant and equipment that you just saw, and somewhat higher taxes. Let's take a snapshot of our balance sheet. After a cash payment of €133 million in ordinary dividends in September, our net cash and investments position remained constant versus March, of €2.6 billion.

Before we start with the Q&A, I just want to conclude first some colour on October, the month of October. Constant currency sales were +26%, retail was +32, and wholesale +21. The main drivers, I would say Japan continues to hold up, Asia-Pacific and the US continued to outperform, retail continues to be strong thanks to Net-a-Porter and our new stores. Europe, however, continues; what we start to see in Europe is it's starting to be affected domestically by the deteriorating economic conditions, starting to be affected. The travelling community, however, remains strong. Domestically, in the domestic locations, we're starting to see a bit of a slowdown.

Please don't extrapolate, this is my usual health warning. Please don't extrapolate these results into the second half. It's an uncertain environment, it's a volatile environment. Comparatives will be more difficult as we go through the year. We're starting to see the effects on a like-for-like basis on the overall growth rate, but the growth remains strong, but just mechanically we're starting to see lower sales on a comparative basis. Foreign exchange: we have no idea where the foreign exchange is going to go. Remember as well we'll spend more on the second half on communication.

Let me just conclude before the Q&A on our core strengths. We have a portfolio of prestigious Maisons, each with enormous potential. We have a leadership position in both the jewellery and high watchmaking segments. We believe there is significant potential for European high quality luxury products. We have broad exposure to clients, both from established and growth markets thanks to our significant retail network. We are, we believe, well prepared to face a highly volatile and nervous world, because we have a strong balance sheet and a good cash position. We will continue to focus on profitable growth. For the rest of the year, we face both the impact of global economic difficulties on the luxury goods industry, and demanding comparative figures. Despite these challenges, and based on our performance to date, we expect operating profit for the full year to be significantly above last year. Finally, the creativity of our Maisons, the responsiveness of our colleagues, the confidence in our business model and the strength of our balance sheet will enable us to continue to invest in our businesses for the long-term, despite the very worrying world economic environment. Thank you, and now we will take your questions in the hall.

QUESTIONS AND ANSWERS

Helen Brand – Barclays Capital

Hi, good morning. Helen Brand, from Barclays Capital. Three questions, if I may. The first one relates to pricing. Can you talk about how much of the 36% organic growth in H1 relates to pricing, and then the outlook for that into H2? Secondly, if we could just talk about space growth in retail, how much space growth in retail do we see in H1? I guess you talked about some opportunities in H2, what's the outlook there? Then finally, I think it relates to that, but in terms of your selling and distribution expenses line, you saw significant leverage there in H1. What's the outlook for the leverage there in H2? Thank you.

Gary SAAGE: On the pricing, you know, it varies by brand, by Maisons, but for sure we took price increases across the business in the first half. Those price increases have generally concluded now. We typically, despite the currencies, we wouldn't deal with pricing during the holiday season. We don't think that's appropriate. So from a margin perspective, I think all things being equal, we expect the margin to be flat for the second half versus now. On the space, we said about 7% for the year. I gave you the store growth. We expect similar amounts of openings for the second half, I would say. On the S & D side, we did have leverage in the first half. To be honest, we were surprised by that. I think sales were better than we expected. We tend to spend more in the second half. Please remember that, you know, if you go across the segments, on a profitability basis, it's less in the second half. We expect it to be less in the second half, that's normal. I think if you're thinking about it, and the way we think about it, is sales and S & D rise by similar levels in the second half.

Helen BRAND: Thank you.

Jon Cox – Kepler Capital Markets

Good morning, Jon Cox with Kepler. Sorry, I just missed the last part of that, Gary. You said sales?

Gary SAAGE: Sales and S & D rise by the similar-, whatever you're thinking about sales, you know we don't project sales. Sales and S & D rise in tandem for the second half.

Jon COX: Okay. I have a question just on the whole movement issue. I'm just wondering how well you guys are prepared next year for-, for example, we have Sellita saying their movements will probably be down 25% next year versus this year. We have the whole Swatch Group, in movements and components. Is it an issue for you guys and are you pretty comfortable that you have everything in place to be fully up and running next year? Or do you think there will be periods next year where there will be-, potentially you won't be able to meet demand? Or would you say you would be an overall winner from the situation?

Johann RUPERT: We are comfortable.

Jon COX: Comfortable?

Johann RUPERT: Yes, thank you.

Will Hutchings – Goldman Sachs

Good morning, it's Will Hutchings from Goldman Sachs. I've got one, sort of, nearer term question, and one longer term question. One on inventories, which clearly are, you alluded, Gary, to they're very low in your retail network. I wonder if you can give us some colour on what you think they're like in the wholesale network. On a longer term question, as the growth continues to be very strong and very robust across the world, how are you thinking about how that's split in terms of deploying capital between capacity increases, investing in brands and investing in distribution, how that will, sort of, play out over the next two or three years?

Johann RUPERT: Two or three years may be a long time to Goldman Sachs. It's a very, very short time in the luxury goods industry. I can't give you two or three years. I remember fielding question upon question about, 'What are you going to do with Van Cleef? What are you going to do with Van Cleef? What are you going to do with Van Cleef?' We said, 'We'll take it and we'll nurture it.' That's quite a while ago. Today, it's doing extremely well. So when we think medium to long-term, we don't think two or three years, we think five to ten years. Obviously

it's a balance between productive capacity and the distribution systems, and you allocate capital accordingly. Your first question was?

Gary SAAGE: Yes, I'll do that one.

Johann RUPERT: How much-, what do we know about the-, suffice it to say, if you go and have a look at the discounts that trade partners give, it's down. Now, they would not be reluctant to give discounts to customers if they were flush with stock. So it's not like in the bad old days, we go and they offer you 20% before you ask, it's narrowed substantially. So from that, we have visibility but I think that's the clearest indicator. We monitor the grey market actively. We have relationships with various companies with massive search engine capacity. So I think, 'What do we do?' Frederick's not here. Yes, but what do we do? Over 50 billion imprints a day? 50 billion. You know, we have servers actively looking. So we'll see if product moves. Now obviously, you do find currency influences. If there are massive swings, then people will try to arbitrage. I mean, our trade partners are not stupid. But from the retailer to the client, the discounts have narrowed substantially, I think. Is that fair?

Gary SAAGE: Yes, that's fair.

Richard LEPEU: What we may have actually is the productivity of the distribution network, of our own retail stores and our partners, is improving dramatically. Actually they sell more with less discount, as mentioned by Mr Rupert, which means much better productivity and less cost of distribution which is maybe a key for the future of our industry as well, to mitigate the increase of the cost of manufacturing "made in Swiss" and the cost of precious materials.

Gary SAAGE: The way I look at that is, I look at the receivables. As I said, receivables continue to be recovered at an extremely high level. For me, that's an indication of the stock positions in the retailers. This time last year, we were about 90% current. Now we're at 92. So I think the stock levels are fine.

Johann RUPERT: Does that help? Is that okay?

Will HUTCHINGS: Yes, that's great.

Matthias Eifert – MainFirst Bank AG

Hello, it's Matthias Eifert from MainFirst. One question about Mr Rupert, when you took over the CEO job again, it did sound a bit like it's not a solution for the next ten to twenty years. I would like to know about your plans, how long you want to keep the job and if there are any ideas about succession? Secondly, I would like to know about your net cash balance, 2.6 billion,

and given the increased difficulties to find super safe investments, would it not be a good idea to return it somehow to shareholders? Thirdly, in terms of your cost management, in the last downturn you've been very early on about cost savings and which mode are you at the moment? Is it still about looking for top line opportunities, or are you already looking into managing the cost base?

Johann RUPERT: Matthias, I don't know where you got the idea that.. I wanted to retire 40 years ago, okay. You know, if you're the controlling sharer, do you ever retire? We run the company, as Maître Aeschmann of Lenz & Staehelin right in the beginning said, 'We run it not-, it's a collegial.' His words were 'collegial'. That's the way the company is run. It will continue to be run like that. The product committees really have a very great role in how the company's run. As to the distribution of cash, we have distributed a lot of cash and assets over the years. Over the years I've said, 'We will try to grow our dividends.' I used to say 15% in Euro terms. We will distribute dividends prudently, and I think people who have invested with us over the years have known that. People who buy to think that we're going to distribute massive amounts of cash are newcomers. So they can go and look elsewhere. The third one is, are we cost conscious or not? We're always cost conscious. If you look at our percentage, if you look at our head office costs as a percentage of sales or assets under management, it's continued to trend downwards. Nothing's going to change. We've always focused on cash flow. You know what? The biggest danger about cash is you've got to stop your colleagues from making investments that they wouldn't do if they didn't have the cash. You said 6 billion, maybe I'm missing something?

Matthias EIFERT: 2.6 billion.

Johann RUPERT: Oh, 2.6. I was going to say, somewhere there's cash that I didn't know about. Right, okay. It's not an enormous amount of money. Have you seen what Apple's got? We may need it in the next five years. Eleven years ago, people had a go at me for overpaying for LMH. If you want to, I'll send you the analyst reports about how crazy we were to buy Jaeger and Lange and IWC, and the ridiculous prices we paid. We're not as conservative as people think. It depends when; you've got to decide when to be conservative. We went into conservative mode three or four years ago. I don't think three or four years ago, very few people agreed when a number of us said that we're going to have dramatic problems in the world. I was called Rupert the Bear and all kinds of things. It was very easy to predict what was going to happen. It was obvious. Today, it's not obvious. Are we going to go into a deep recession, or dare I say it, a depression? Are we going to have stagflation, are we going to have runaway inflation? I don't know. So you've got to hedge your bets, so that you can survive. Will Asia pull us through? I hope so, but I don't know. When you say you don't know, people think you're coy. Right now, I speak to a lot of friends that have had investment experience for very, very many years, and they

don't know. I'm close to Nouriel Roubini and Taleb and these guys. Then, of course, a lot of fund managers.

Across the board, you have a feeling of it could go this way, it could go this way, it could go that way. Problematic thing is that there are very cogent, very coherent, very intelligent arguments that can be made for a whole host of scenarios. So it's uncertain times, and in uncertain times I don't think you act rashly. So we've been lucky, we've got no debt in Richemont. Above Richemont as a family, we don't have debt. We're not going to ask Richemont to pay dividends, to pay interest up in any chain, which I think is important. When you have controlling shareholders who have problems above public companies, they may be forced. None of this exists at Richemont, so we're in a lucky position that we can plan for five to ten years. It's interesting, analysts always complain, but shareholders are quite happy with 15% increases in dividends. If we had to listen to the investment banks and analysts complaining about lazy balance sheets and, 'You haven't got an optimal balance sheet,' and then that famous other lie, 'We'll give you the money when you need it.'

We know what's happened to people who applied excessive gearing. We had to bail them out, which to me is amoral. I have great empathy with the people who are upset with the system. You remember Bloomberg picked it up a year or two ago when I said that we're going to have civil strife. That hasn't started yet. When people really realise that savers are going to be forced into bailing out people that live beyond their means, people are going to get upset. Overall, it really is the people that did save and live prudently are now being forced into bailing out people that live beyond their means. I mean, how do you feel if you are a saver? I'm not going to go geographically. You go and you look at the interest that you earn on your savings. How do retirees survive, and why? Because we socialise debts. In the UK, if they'd taken 20% less in bonuses, discretionary bonuses, in the five years leading up to the banking crisis, it would have been enough to cover the bailout. How do I defend that? How do you defend that to the ladies who work in my office, who now have to have 20% VAT? We are going to have problems in society. We're going to have to have another social contract. How do you defend what's just happened here in the United States where Mr Corzine again applied 40%, 40 times leverage?

You open the Financial Times or the Wall Street Journal, and the top first four pages are about corrupt, not politicians, corrupt businesspeople. We think that we're just going to muddle through and the people are not going to get upset? I think we've got to prepare for people that are going to be very upset. For that, we also need to be conservative for the luxury goods business and we need to be prepared. Social mores will change. My biggest concern is no longer whether we're in financial difficulty. My biggest concern is what system are we going to choose to govern ourselves under as society in the next decade? It's ironical that the chairman of the CIC says that Europe's lazy, socialistic, the workers are not incentivised. You saw his comments this week. Yes, the China Investment Corporation said 'The problem with Europe is

the Europeans are not incentivised to work.” These are the people who expect to bail us out. We will continue-, this is our mind-set at Richemont. We will continue to be prudent. We are not going to be extravagant with dividends. I think 15% per year, which we've maintained over the last 10-odd years, I think it's more than sufficient. In fact, I think it's remarkable.

I do not think that we have understood what's going to happen to society. You're too young. May '68, President de Gaulle sent the tanks into Paris. They are already burning cars in Germany. So let's see what the next five years hold. If that's your mind-set, you don't want to be extravagant. My biggest, biggest sadness is that the people will naturally blame free enterprise or capitalism. The problem is if we'd allowed free enterprise to function properly, this mess would not have happened. We would not have had a 'Greenspan Put', we would not have had 'too big to fail'. Long-Term Capital Management would have gone under. We would not have had this system where if you bet on red, you make a ton of money. If you bet on black, the government bails you out with taxpayers' money. If right in the beginning, the regulators had been awake, and not asleep, and if they'd let these guys go under. I worked on Wall Street, I worked for Lazard. It was a partnership. Do you really think the partners would allow the Derivatives Department to do, we didn't have Derivatives Department. The partners watched the risk. Then they went public. The risk became obscene, and now we've socialised private debt.

The people are not stupid. When savers find out what's happened to their savings, these riots and protests will continue. I have empathy with people who live prudently, and are now asked to bail out people that behaved recklessly. I have great empathy. So that is my concern for the next decade. Luckily, I am 60 plus. You are young. You're going to have to live with the consequences. If you're a 25-year-old, 30-year-old, you may not have this same system of governance for quite a while. Remember they put the Glass-Steagall Act in after the last disaster. Remember what President Roosevelt said in the '30s. President Obama is openly attacking the so-called 1%. You're going to find politicians throughout Europe using ethnicity, they're going to use targeting the productive class. In New York City, 5,000 families pay 50% of the taxes. 5,000, that's all. I lived there in the '70s when New York was bankrupt. If they target those 5,000 families and they move to Florida where there is no Estate Duty, or where there is no city, you know, New York's bankrupt again. I think one's got to look at the bigger view. As colleagues here, we try to look at the bird's eye view. We've been very fortunate in that we acted early, so as Bernard Fornas says, 'We've got a plane on five engines.' So if one of the engines, Europe, America, whatever, has a bit of trouble, then luckily we have Brazil, we have Russia, we have China. We have a number of other engines that are working and keeping us in the air.

I don't want to sound gloom and doom, but Coco Chanel said, 'Money is money is money. It's only the pockets that change.' So we've got to find the pockets. That's our goal, we try and find the pockets. We're fortunate that we now have, as Sophie corrected me, I thought it was 330, we have 323 stores in China. Luckily, we went early. So I think we've positioned the group well.

My colleagues, not me. Seriously, people at the Maisons must get tremendous credit. I thought I'd give you the overall philosophy of the Group. Otherwise, you would not be able to explain to your investors why we keep cash or why we do this, or why we act, sometimes it would seem, irrationally. These are the concerns that we have. I spoke a long time, but I really thought the audience-, and this is really why I came. I said to Richard, 'We've got to give them a bit of a background as to our philosophy.' Jon, please, I hope you listened so you don't continuously say I'm always conservative and always wrong, Jon, because I read your stuff, okay? Are there any other questions?

Caroline Price – Caprice Management Ltd

Caroline Price, Caprice Management. I'm just curious about the capital expenditure. Obviously, you know, you've raised a little bit how much you're expecting to spend relative to sales, and also relative to H1. A lot of the spend in the first half relative to last year went to distribution platforms, IT and Net-a-Porter. Is that something that we could expect to see increasing at share of your spend?

Johann RUPERT: Sorry, we've asked our colleagues to... When our kids were young, I had to try and explain the difference between wants and needs. Especially one of my daughters who would say, 'I need this.' They were nine, ten, eleven. I said, 'No, no, no, no. That, you want. You need food, you need clothes. You don't need this doll.' So Gary and Richard, and with my full backing, will ask the Maisons to please differentiate between want and need. Wants, Gary, will go backburner. Needs, we'll support.

Caroline PRICE: Do you think that the needs could include more, let's say, intangible type of...

Johann RUPERT: That's a bloody good question. Gary, over to you.

Gary SAAGE: Caroline, I think we were pretty clear in May. You know, we said 6-7%. Now we say 7-8%. That's a function of, to be honest, retail opportunities that we see, that we didn't see before, and that's the only difference. So for this year, okay maybe a little more retail than we thought. Most of the retail comes in the second half. So we really haven't changed our thinking. It's more timing. You know, we said we'll continue to invest in our manufacturing capabilities this year, so that's machinery, that's people. Next year, we'll start to deal with the space issue. So our thinking hasn't changed, really.

Caroline PRICE: When you say distribution platform, is that, sort of, logistic centres?

Gary SAAGE: Logistics, yes. Net-a-Porter expanded their UK platform. They put in an automation system. We're starting to expand the US platform and we're slowly starting to

address Asia. That's what it relates to. The other platforms are pretty well set, although we're expanding in Brazil. China, we continue to look at, Hong Kong. No change really in the thinking.

Johann RUPERT: In fact, backing Gary, the way our cycle works is the two weeks preceding this meeting, all the Maisons come. We start with-, always start within the DNA of the Maison. What products do they intend to launch in the next year or two or three? Then, is this realistic? Are these results achievable? How will they communicate and how much will it take? Obviously, how many boutiques they all want to open and how many factories they want to build, et cetera. Then we give them a haircut as to what is affordable, what they really need, and what they really want. Then I start backing Gary and Richard, because they really do the work. I go to product committees, but they do the work. We then put the budget together with a view from the bottom up. I think it's very important for you to know. We don't tell them, 'We want this from you, you go and get it.' We look at what is achievable from the ground up.

It's not only me, we have Franco Cologni, Alain Perrin, past colleagues there. So we get a feeling, we have a reasonable feeling as to whether these targets are achievable. Then the budget gets constructed, and then we back Gary and I back Richard, and we tell the Maisons: 'Sorry. You're going to have to wait.' So we don't say 6% or 9% or XYZ, it's the other way around. This is why it's difficult for him to quantify, because we haven't gone through the needs and the wants and the separation, but believe me, it's not going to be higher. That's a fair statement.

Gary SAAGE: That's a fair statement.

Johann RUPERT: The mind-set is not expansionary. It's very, very difficult when they're short of capacity, when there are waiting lists and when there's demand to keep the people back. You don't want to demotivate. Sorry, Jon.

Jon Cox – Kepler Capital Markets

Sorry, I thought I'd come back for more. Sophie, you said the Jewellery Maison would have a lower margin in H2 versus H1.

Sophie CAGNARD: For sure.

Jon COX: For sure, okay. Then what about the watch division? Should we think that as well, or with the ongoing improvement with Roger Dubuis and Baume & Mercier, with the margin in H2, initially be roughly the same, do you think?

Johann RUPERT: We don't know. Please Jon, every year, it's the same question.

Gary SAAGE: Jon, okay.

Johann RUPERT: Tell me what the Swiss Franc is going to do, Jon. Do you think the Swissie will hold up?

Gary SAAGE: No, I mean, Jon, we've been down this road before, right? I think if you go back and you look at the history, you know, currencies being equal, our operating margins are less in the second half. They always are since SIHH, right? We think they'll continue to be because of the communication and what have you. I don't know what the sales are going to be, I don't know what the.. The reality is, we spend more in the second half than we do in the first, because our guys, as Mr Rupert said, our guys are pretty conservative. Particularly in this first half, okay, we knew, you know, they could see that there was margin pressure because of the Swiss Franc. You have to deal with prices and things. You have to be rational. So the guys were extremely conservative in the first half on their spend to see what happens. So even more so, I would say-

Johann RUPERT: Sorry, I want to disabuse you of all of this. Do you really think that people are interested in 0.5%, 1%, 2%? You analyse the margins per quarter, per six months. When I speak to the serious investors, now serious, they look at three, five years and, "Are you doing the right thing? Are you cash flow positive? Are you building brand equity? Are your brands or Maisons becoming more desirable?" Then they smooth it out over a five to ten-year period. If we had any bad trends, then we'd tell you, but we cannot give you this quarter-by-quarter nonsense. People who run their businesses on quarter-by-quarter and semi-annual always cut corners. They cut advertising, they cut R&D. One of the nice things about being controlled is that when people tell me, "You've got a lazy balance sheet", I say, "We can live with it." We can live with it. We can live with supporting the Maisons. We can look at it five to ten years and give oxygen to a Van Cleef. Right now, Lancel is doing very well. Two of their bags are on waiting lists. They need space in some parts of Asia. We'll support them because we know it's going to make sense strategically. Quite frankly, I don't care what it does to a six months' budget, or a yearly budget, as long as it's within our means.

I can't have my colleagues being questioned about what's going to happen to your margin in two months or a month when I'm responsible to say, "Guys, this Maison needs that." Then these poor guys are held to targets. We agree on 95% of everything, but now and again, we'll make a call and we'll say, "Give Van Cleef five years," or, "Right now, this Maison needs that there." The payback may be in five years' time, hopefully in three years' time, but you make a strategic decision. This is why I've got to say to you, we don't run the business with a view. Gary's answer was absolutely correct in terms of the guys holding back. Now it's harvest time. Now Christmas and Chinese New Year, this is harvest time. So you spend more money. I think the key thing is the trade is clean. Inventory's low, our asset turnovers are up. The remarkable thing

is the discounts are down. You don't get High Jewellery discounts. You go, you pay. It shows that the desirability is there.

All we're trying to do is-, and if you look at Cartier or Van Cleef, go and look at Sotheby's and Christies at the resale values, have a look at what happens at the auctions. Our clients know that there is an investment value. We're now getting new clients that are saying, "We don't want bloody Euros, we don't want Swiss Francs, because this is where we thought it was going to go up, and we don't know about the equity market, so we will just invest in High Jewellery." That's a remarkable thing. So there are no discounts. Now, if we don't have discounts, and the retail trade, watch dealers, don't offer massive discounts, it means that the pipeline is clean. Those are funny, Jon. You've got to do your job, and I respect. We've got to do our job, but you've got to understand, we don't plan quarterly or six-monthly or annually that we've got to hit these targets. We start at the bottom up. I'm not saying we're right, but it's worked for a while. So we'll try and carry on doing that.

Jon COX: Can I just have a follow up, then? Nick Hayek recently has been talking about 5-10% growth in the watch industry next year as measured by exports. Do you have a best guess? You seem to be, sort of, swaying between...

Johann RUPERT: You know, I said this morning that Mr Hayek Senior and Nick have been a hell of a lot better at projecting than I do. I like Nick. I'm not going to compete with his projections, whether it's 5 or 10 or 5 or whatever. I'm not going to say-, what I can say to you is he's been very good and his dad was very, very good. So follow them.

Sophie CAGNARD: I think there are no more questions? Okay, so we should end.

Gary SAAGE: Thanks for coming, everyone.

Johann RUPERT: Thank you very much.