

RICHEMONT

TRANSITION TO IFRS

In accordance with the listing requirements of the Swiss Stock Exchange (SWX), Richemont, the Swiss luxury goods group, will adopt International Financial Reporting Standards (IFRS) in place of generally accepted accounting principles in Switzerland (Swiss GAAP) for the preparation of its consolidated financial statements for the year ending 31 March 2006. These financial statements will include restated comparatives for the year ended 31 March 2005. This announcement describes the effects of the transition to IFRS on the year ended 31 March 2005.

The main changes to the Group's reported results arising from the transition relate to:

- The reversal of goodwill amortisation in respect of its investment in British American Tobacco plc (BAT) and the recognition of BAT's IFRS adjustments;
- A charge in respect of the Group's employee unit option plan;
- A net charge in respect of foreign exchange movements, due to a change in the classification of intercompany financing.

	Year ended 31 March 2005		
	Swiss GAAP on an adjusted basis*	Swiss GAAP as reported	IFRS
Sales	€ 3 717 m	€ 3 717 m	€ 3 671 m
Operating profit	€ 505 m	€ 505 m	€ 561 m
Net profit attributable to unitholders			
- parent and subsidiaries	€ 413 m	€ 494 m	€ 414 m
- share of associated company	€ 468 m	€ 491 m	€ 798 m
- the Group	€ 881 m	€ 985 m	€ 1 212 m
Earnings per unit - fully diluted basis	€ 1.588	€ 1.775	€ 2.185

* Swiss GAAP results on an adjusted basis are presented excluding all exceptional items and the effects of goodwill amortisation in respect of the Group's investment in British American Tobacco plc.

The following summarises the impact of the transition to IFRS on the Group's previously reported Swiss GAAP financial statements. Further details are provided on pages 3 to 9 and in the Appendix to this press release, which includes a reconciliation of Swiss GAAP adjusted results to IFRS as adjusted.

Sales are marginally reduced due to the reclassification of certain selling costs and royalty income. Operating profit is increased by € 56 million to € 561 million, primarily due to a reclassification of the gain on disposal of 0.6 per cent of the Group's effective interest in BAT (€ 76 million), offset by a charge for employee unit options (€ 31 million). The net profit from the parent and its subsidiaries was reduced by € 80 million, primarily reflecting the charge for employee unit options and the impact of intercompany foreign exchange adjustments resulting in a net charge of € 40 million. The Group's share of the results of BAT, an associated company, was increased by € 307 million to € 798 million. This increase relates primarily to the non-amortisation of goodwill (€ 222 million) and the recognition of the Group's share of BAT's IFRS remeasurements (€ 85 million).

The Group's net cash position at 31 March 2005, at € 617 million, was unaffected by the transition. Equally, the Group's cash flows from operations were not affected.

As a result of these IFRS adjustments, earnings per unit attributable to unitholders on a fully diluted basis have increased to € 2.185, and net profit attributable to unitholders has increased by € 227 million to € 1 212 million.

Since its formation in 1988, the Group has reported its financial performance using Swiss GAAP, reflecting its Swiss domicile and its listing on the SWX. In accordance with the SWX listing requirements, listed companies may no longer prepare their consolidated accounts using Swiss GAAP for financial years commencing on or after 1 January 2005, but must report using either IFRS or US GAAP. The Group has elected to apply IFRS with effect from 1 April 2005.

The Group will adopt IFRS for the first time in its consolidated financial statements for the year ending 31 March 2006. The IFRS which will be effective at the reporting date for first-time adoption (31 March 2006) are, except where specific exemptions apply, to be applied retrospectively to the opening balance sheet (as at 1 April 2004), to the comparative year (for the year ended 31 March 2005) and to the reporting year (for the year ending 31 March 2006).

The information included in this press release does not comprise a full set of consolidated financial statements, but is being issued to enable investors to familiarise themselves with the Group's IFRS financial statements prior to the issuance of the interim results for the six months ended 30 September 2005, due on 17 November 2005.

The financial information in this announcement has been prepared on the basis of IFRS expected to be applicable at 31 March 2006. Standards and related interpretations are the subject of review and possible amendment by the authoritative bodies and there is a possibility that financial information included in the Group financial statements at 31 March 2006 may differ from the information set out in this announcement.

Richemont owns a portfolio of leading international brands including Cartier, Van Cleef & Arpels, Alfred Dunhill, Montblanc and Lancel as well as the prestigious watch manufacturers Jaeger-LeCoultre, Piaget, Baume & Mercier, IWC, Vacheron Constantin, A. Lange & Söhne and Officine Panerai.

In addition to its luxury goods business, Richemont holds an 18.5 per cent effective interest in British American Tobacco plc.

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Compagnie Financière Richemont SA
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Income statement on a reported basis for the year ended 31 March 2005

	Swiss GAAP € m	Reclassifications € m	Remeasurements € m	I F R S € m
Sales	3 717	(46)	-	3 671
Cost of sales	(1 325)	(90)	-	(1 415)
Gross margin	2 392	(136)	-	2 256
Net operating expenses	(1 887)	222	(30)	(1 695)
Operating profit	505	86	(30)	561
Exceptional item	81	(76)	(5)	-
Net investment income / (expense)	2	(10)	(40)	(48)
Share of results of associate	491	-	307	798
Profit before taxation	1 079	-	232	1 311
Taxation	(92)	-	(5)	(97)
Net profit	987	-	227	1 214
Attributable to Unitholders	985			1 212
Minority interests	2			2
	987			1 214

	Swiss GAAP €	I F R S €
Earnings per unit on a reported basis		
- basic	1.798	2.212
- fully diluted	1.775	2.185

Sales

	€ m
<i>Sales reclassifications</i>	
Sales-related discounts	(30)
Royalty income	(16)
	(46)

Volume- and other sales-related discounts of € 30 million, previously recognised as selling and distribution costs, have been reclassified as deductions from sales in accordance with IAS 18 *Revenue*.

In addition, the Group has elected to reclassify royalty income previously reported as sales to 'other income', a separately identified component of net operating expenses. For comparative purposes, sales for the year ended 31 March 2005 have been reduced by € 16 million to conform with this change in presentation to be made in the current year. There is a corresponding reduction in net operating expenses.

None of the adjustments to sales has a material effect on any business or geographic segment.

Cost of sales

The Group has elected to reclassify product repair and directly related costs, previously reported as operating expenses, to cost of sales for the year ending 31 March 2006. For comparative purposes, the cost of sales reported in the income statement for the year ended 31 March 2005 has been adjusted by € 90 million to conform with this change in presentation to be made in the current year.

Net operating expenses

	<u>€ m</u>
<i>Net operating expense reclassifications</i>	
Sales-related discounts	30
Royalty income	16
Product repair and directly related costs	90
Exceptional gain on indirect disposal of BAT ordinary shares	76
Foreign exchange differences	10
	<u>222</u>

In accordance with IAS 1 *Presentation of Financial Statements*, the € 81 million gain on the indirect disposal of 0.6 per cent of the Group's effective interest in BAT, adjusted for IFRS reporting to € 76 million, has been reclassified from exceptional items to net operating expenses.

In addition to the reclassifications between sales and cost of sales above, the Group has elected to reclassify foreign exchange gains and losses arising on intercompany monetary items (€ 10 million) from net operating expenses to a component of net investment income/(expense) to reflect operating results on an ongoing basis for the year ending 31 March 2006. The income statement for the year ended 31 March 2005 has been adapted to conform with this change in presentation to be made in the current year.

The Group has retrospectively applied IFRS 2 *Share-based Payment* for unit options granted after 7 November 2002 and still unvested at 1 January 2005. The application date of this standard was 1 April 2005. Accordingly, an increase in net operating expenses of € 31 million has been recorded for the year ended 31 March 2005. This charge is matched by an increase to the unit option reserve, an element of equity. Accordingly, there is no net impact on equity for the year ended 31 March 2005 specific to the adoption of IFRS 2. In addition, the remeasurement of pension-related obligations under IFRS has reduced pension charges within net operating expenses by € 1 million.

Net investment income/(expense)

The Group has significant intercompany financing arrangements in place. Following the adoption of IAS 21 Revised *The Effects of Changes in Foreign Exchange Rates*, the Group is required to recognise certain exchange gains and losses on intercompany financing within the income statement. These exchange movements were previously recognised as cumulative translation adjustments within equity. As a consequence of the revised Standard, a net charge amounting to € 40 million has been recognised within net investment income/(expense) for the year ended 31 March 2005. This includes a foreign exchange gain of € 29 million and a foreign exchange loss of € 69 million, both relating to intercompany financing.

Taxation

Upon adoption of IAS 12 *Income Taxes*, the Group is required to recalculate deferred taxation at 1 April 2004 on the unrealised profit arising on intercompany transfers of inventory. Accordingly, an increase in deferred taxation expense of € 5 million has been recorded in the income statement for the year ended 31 March 2005 relating to the change in deferred taxation on intercompany profit elimination recorded during the period.

As a consequence of the remeasurements described above, the Group's effective tax rate has increased from 18.1 per cent to 22.2 per cent under IFRS. The increase is primarily due to non-cash charges realised in lower tax rate jurisdictions, such as employee unit options charges and the recognition of intercompany foreign exchange adjustments.

Share of results of associated company

	<u>€ m</u>
<i>Share of results of associate remeasurements</i>	
Non-amortisation of goodwill	222
Share of associate's exceptional gain adjustment	60
Share of associate's other IFRS adjustments	25
	<u>307</u>

Goodwill amortisation charges of € 222 million have been reversed in accordance with IAS 38 *Intangible Assets*. In addition, the Group has recorded its share of all of its associate's other IFRS transition adjustments. These other adjustments amount to € 85 million, € 60 million of which relates to an adjustment to the exceptional gain on the sale of subsidiaries.

Cash flow impact

There is no impact on cash generated from operations or free cash flow from Group operations for the year ended 31 March 2005 as a result of the restatement from Swiss GAAP to IFRS. See page 9.

Results on a Swiss GAAP adjusted basis

For a reconciliation from Swiss GAAP adjusted basis to IFRS adjusted basis, please refer to the Appendix.

Analysis of sales and profitability by segment for the year ended 31 March 2005

	Swiss GAAP € m	Royalty reclassification	Discount reclassification	I F R S € m
Sales				
Jewellery Maisons	1 956	(5)	(13)	1 938
Specialist watchmakers	885	-	(15)	870
Writing instrument manufacturers	427	(2)	(1)	424
Leather and accessories Maisons	265	(5)	(1)	259
Other businesses	184	(4)	-	180
	<u>3 717</u>	<u>(16)</u>	<u>(30)</u>	<u>3 671</u>
		Remeasurements &		
Operating result	Swiss GAAP	Reclassifications	Unit options	I F R S
Jewellery Maisons	460	-	(4)	456
Specialist watchmakers	148	-	(3)	145
Writing instrument manufacturers	59	-	(1)	58
Leather and accessories Maisons	(40)	-	(1)	(41)
Other businesses	3	-	(1)	2
	<u>630</u>	<u>-</u>	<u>(10)</u>	<u>620</u>
Corporate costs				
- Head Office costs	(112)	1	(21)	(132)
- Other operating (costs)/income	(13)	86	-	73
Operating profit	<u>505</u>	<u>87</u>	<u>(31)</u>	<u>561</u>

Summarised balance sheet as at 31 March 2005

	Swiss GAAP € m	Remeasurements € m	I F R S € m
Non-current assets			
Fixed assets	733	-	733
Investment in associated company - BAT	2 746	306	3 052
Other non-current assets	377	39	416
	3 856	345	4 201
Net current assets	1 628	-	1 628
Net operating assets	5 484	345	5 829
Net cash	617	-	617
Bank and cash	1 409	-	1 409
Bank overdrafts	(633)	407	(226)
Borrowings	(159)	(407)	(566)
Other non-current liabilities	(143)	(22)	(165)
	5 958	323	6 281
Equity			
Unitholders' funds	5 952	323	6 275
Minority interests	6	-	6
	5 958	323	6 281

Investment in associated company – British American Tobacco

The following remeasurements are required to account for the Group's equity investment in BAT at 31 March 2005:

	€ m
The reversal of previously amortised goodwill during the year	222
The Group's share of BAT's own transition adjustments from UK GAAP to IFRS, excluding the goodwill reversal above	82
Other IFRS transition-related adjustments relating to the investment and transactions which occurred during the year, net	2
	<u>306</u>

The IFRS carrying value of the Group's investment in BAT at 31 March 2005 is € 3 052 million. The fair value of the Group's investment at that date, based on the market capitalisation and the Group's 18.25 per cent effective interest, was € 5 292 million.

Other non-current assets

As noted in taxation above, the Group was required to change its calculation method relating to the deferred taxation arising on unrealised profit in inventories. The effect on the balance sheet at 31 March 2005 was to increase deferred tax assets by € 39 million.

Cash and cash equivalents

In accordance with IAS 7 *Cash Flow Statement*, the Group has reclassified short-term loans from bank overdrafts to borrowings. Cash and cash equivalents is broadly defined as the combination of cash and bank overdrafts. These amounted to € 1 183 million at 31 March 2005.

Other non-current liabilities

The Group has used the exemption available under IFRS 1 *First Time Adoption of IFRS* to recognise a previously unrecognised net actuarial deficit relating to retirement benefit obligations of € 23 million directly through equity. Similarly, the remeasurement of pension-related liabilities under IFRS has reduced retirement benefit obligations by € 1 million. In addition, the Group has adopted defined benefit accounting for its Swiss pension scheme, in accordance with IAS 19 *Employee Benefits*. This adoption has not had an impact on the Group's reported earnings and financial position.

Equity

Unitholders' funds have increased by € 323 million at 31 March 2005 as a result of the transition to IFRS, in particular due to the non-amortisation of BAT-related goodwill during the year and to other BAT-related restatements.

Summarised cash flow for the year ended 31 March 2005

	Swiss GAAP € m	I F R S € m
Operating profit	505	561
Depreciation and other non-cash items	113	57
Earnings before interest, tax and depreciation	618	618
Increase in working capital	(137)	(137)
Cash generated from operations	481	481
Returns on investments and servicing of finance	5	5
Taxation paid	(79)	(79)
Net acquisitions of fixed assets	(127)	(127)
Free cash flow from operations	280	280
Dividends received from associate	267	267
Proceeds from disposal of BAT preference shares	828	828
Proceeds from indirect disposal of BAT ordinary shares	179	179
Other investing activities, net	(5)	(5)
Net cash inflow before financing activities	1 549	1 549
Dividend paid to unitholders	(219)	(219)
Buy-back of Richemont units, net	44	44
Other financing activities	(257)	(227)
Exchange rate effects	30	30
Increase in cash, cash equivalents & short-term borrowings	1 147	1 177
Cash and cash equivalents at the beginning of year	(371)	6
Cash and cash equivalents at the end of year	776	1 183
Long-term borrowings	(159)	(566)
Net cash	617	617

All IFRS remeasurements are non-cash adjustments and have no effect on free cash flow from operations.

Appendix

Reconciliation of Swiss GAAP as adjusted, excluding exceptional items and goodwill amortisation, to IFRS for the year ended 31 March 2005.

	Swiss GAAP as adjusted € m	Reclassifications € m	Remeasurements € m	IFRS as adjusted € m
Sales	3 717	(46)	-	3 671
Cost of sales	(1 325)	(90)	-	(1 415)
Gross margin	2 392	(136)	-	2 256
Net operating expenses	(1 887)	146	(30)	(1 771)
Operating profit	505	10	(30)	485
Net investment income/(expense)	2	(10)	(40)	(48)
Profit before taxation	507	-	(70)	437
Taxation	(92)	-	(5)	(97)
Profit after taxation	415	-	(75)	340
Minority interests	(2)	-	-	(2)
Net profit of the parent and its subsidiaries	413	-	(75)	338
Share of results of associated company				
- British American Tobacco	468	-	25	493
Net profit of the Group	881	-	(50)	831

	Swiss GAAP as adjusted € m	IFRS as adjusted € m
Earnings per unit		
- basic	1.608	1.517
- fully diluted	1.588	1.498

	Swiss GAAP € m	Remeasurements € m	IFRS € m
Net profit as adjusted (above)	881	(50)	831
Goodwill amortisation in respect of associate	(222)	222	-
Non-recurring item reported by Group	81	(5)	76
Non-recurring items reported by associate	245	60	305
Minority interests	2	-	2
Net profit as reported (page 3)	987	227	1 214