Richemont

Interim Report 1996

Compagnie Financière Richemont AG is a Swiss-based company with interests in subsidiary companies operating primarily in the fields of tobacco and luxury goods. In addition, Richemont holds investments in associated companies operating in the electronic media and direct marketing industries. Richemont is the ultimate parent of a family of some of the world's leading consumer brands.

Richemont's tobacco interests are held through Rothmans International, which produces a wide range of cigarette and other tobacco products. Rothmans International's brands include Rothmans, Dunhill, Peter Stuyvesant and Craven "A".

The Group's interests in the luxury goods industry are held through Vendôme Luxury Group, which owns a portfolio of brands, including Cartier, Alfred Dunhill, Montblanc, Piaget and Baume & Mercier.

Richemont's electronic media interests are held through NetHold, which controls FilmNet, MultiChoice Europe, MultiChoice Africa, ProNet and Irdeto and holds investments in Telepiù S.r.l. and M-Net. The Group's direct marketing interests are held through NAR Group Limited, which holds a controlling interest in Hanover Direct, Inc.

The Group is managed with a view to the profitable long-term development of successful international brands.

Compagnie Financière Richemont AG
Rigistrasse 2, 6300 Zug, Switzerland

Interim Report

The Board of Directors of Compagnie Financière Richemont AG announces the following results for the six month period ended 30 September 1996.

	Six months ended 30 Sept 1996	Six months ended 30 Sept 1995	
Net Sales Revenue	£ 2 343.6 m	£ 2 037.7 m	+ 15.0%
Operating Profit	£ 466.2 m	£ 354.1 m	+ 31.7%
Profit Attributable to Unitholders	£ 143.3 m	£ 152.4 m	- 6.0%
Earnings per Unit	£ 24.96	£ 26.54	- 6.0%

The financial highlights shown above exclude the effects of goodwill amortisation from the results for both periods.

- Strong growth in operating profit reflected:
  - a 12.3 per cent increase in underlying tobacco operating profit as well as the full impact of the merger of Rothmans International with the tobacco businesses of Rembrandt Group in January 1996.
  - a maintained level of operating profit reported by Vendôme Luxury Group.
  - an increase of £ 20.1 million in Richemont's share of operating losses in respect of its media interests, held through NetHold.
- Profit attributable to unitholders and earnings per unit, adjusted to exclude goodwill amortisation from the results for both periods, decreased by 6.0 per cent to £ 143.3 million and £ 24.96, respectively.
- The results for the period under review do not reflect any impact of the merger of NetHold's European operations with those of Canal+, which was agreed in principle in September 1996. As definitive agreements are currently being finalised and a number of regulatory and other approvals are required to be obtained, it is likely that the merger will only be completed at the end of the current financial year. The anticipated impact of the transaction on Richemont's earnings will therefore not be reflected in the results for the current year.

Consolidated Profit and Loss Account

To facilitate the comparison of the Group's results across the relevant periods, the summary profit and loss account set out below is presented on an adjusted basis, which excludes the effects of exceptional items and goodwill amortisation from results for all periods shown. The Group's profit and loss account on a reported basis is presented as an attachment to this announcement.

	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m	Year ended 31 March 1996 £ m
Operating profit	466.2	354.1	798.9
Net investment income / (expense)	(12.7)	21.1	(3.2)
Profit before taxation	453.5	375.2	795.7
Taxation	(162.8)	(126.3)	(268.4)
Profit after taxation	290.7	248.9	527.3
Minority interests	(147.4)	(96.5)	(211.2)
Profit attributable to unitholders	143.3	152.4	316.1
Earnings per unit	£ 24.96	£ 26.54	£ 55.05

The Group's operating profit increased by 31.7 per cent against the first half of last year to £ 466.2 million. Rothmans International, the vehicle for Richemont's tobacco interests, reported an operating profit of £ 401.1 million, which represented an increase of 51.9 per cent. These results reflected a 12.3 per cent increase in underlying tobacco operating profit and benefited in particular from the merger of Rothmans International with the tobacco businesses of Rembrandt Group in January 1996. Operating profit from the Group's luxury goods interests, which are held through Vendôme Luxury Group, decreased by 2.6 per cent to £ 110.4 million although in terms of the Swiss franc, Vendôme's reporting currency, results were largely in line with those of the previous period.

The Group's results for the current period were adversely impacted, however, by an increase in operating losses from Richemont's associated undertakings, which were, in total, £ 29.0 million higher than the first half of last year. This primarily reflected an increase of £ 20.1 million to £ 35.0 million in operating losses from the Group's media interests, which are held through NetHold, although NAR Group also reported higher losses.

Note 1 Goodwill amortisation As shown above, the reported results have been impacted by the Group's accounting policy of amortising goodwill through the consolidated profit and loss account. The goodwill amortisation charge at the pre-tax profit level for the six months ended 30 September 1996 was £ 51.1 million (1995: £ 22.4 million). At the attributable profit level, after deduction of minority interests, the amortisation charge amounted to £ 38.0 million (1995: £ 22.1 million).

Note 2 Gain on merger of tobacco interests The Group's profit and loss account for the year ended 31 March 1996 included an exceptional gain of £ 160.3 million on the dilution of Richemont's effective interest in Rothmans International on the merger of the Group's tobacco interests with those of Rembrandt in January 1996. The amount represented the net gain, after charging against it an appropriate proportion of the goodwill arising from the earlier buy-out of the public minority shareholders in Rothmans International.

Attachment
Consolidated Profit and Loss Account on a Reported Basis

	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m	Year ended 31 March 1996 £ m
Operating profit	466.2	354.1	798.9
Goodwill amortisation (Note 1)	(51.1)	(22.4)	(66.6)
Gain on merger of tobacco interests (Note 2)	–	–	160.3
Profit before net investment income and taxation	415.1	331.7	892.6
Net investment income / (expense)	(12.7)	21.1	(3.2)
Profit before taxation	402.4	352.8	889.4
Taxation	(162.8)	(126.3)	(268.4)
Profit after taxation	239.6	226.5	621.0
Minority interests	(134.3)	(96.2)	(204.6)
Profit attributable to unitholders	105.3	130.3	416.4
Earnings per unit	£18.34	£22.69	£72.52

A summary of the effects of exceptional items and goodwill amortisation on profit attributable to unitholders is shown below.

	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m	Year ended 31 March 1996 £ m
Profit attributable to unitholders on a reported basis	105.3	130.3	416.4
Goodwill amortisation (Note 1)	38.0	22.1	60.0
Gain on merger of tobacco interests (Note 2)	–	–	(160.3)
Profit attributable to unitholders on an adjusted basis	143.3	152.4	316.1

Net investment expense of £12.7 million in the six months to 30 September 1996 compared to income of £21.1 million in the corresponding period last year. This change was principally due to the inclusion in the current period of a full six months' financing costs of the buy-out of the Rothmans International public shareholders in July 1995. The Group's effective taxation rate increased to 35.9 per cent, reflecting in particular the increased level of losses from Richemont's associated undertakings.

The share of profit attributable to minority interests increased by £50.9 million to £147.4 million in the period under review. This was largely due to improved results in Rothmans International's publicly quoted subsidiaries, along with the impact of the changes in Richemont's effective interest in Rothmans International during the last year. The results for the six months to 30 September 1996 include a charge for minorities in respect of the 33.3 per cent interest in Rothmans International now held by Rembrandt. In the profit and loss account for the first half of last year, Rothmans International was accounted for as a wholly-owned subsidiary of Richemont from the date of the buy-out of the public minorities in July 1995.

The Group's results on a reported basis also reflected a higher goodwill amortisation charge, which increased by £15.9 million to £38.0 million at the attributable profit level. The increase primarily reflected the amortisation of the goodwill arising in respect of Richemont's tobacco interests. On a reported basis, profit attributable to unitholders and earnings per unit decreased by 19.2 per cent to £105.3 million and £18.34, respectively.

Analysis of Operating Results by Business Segment

The following table analyses the Group's results between the two principal business segments, tobacco and luxury goods, as well as other activities.

	Net sales revenue		Operating profit	
	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m
Tobacco	1 640.0	1 338.2	395.3	256.6
Luxury goods	703.6	699.5	110.4	113.3
Other	–	–	(1.9)	(7.2)
The Company and its subsidiary undertakings	2 343.6	2 037.7	503.8	362.7
Share of associated undertakings			(37.6)	(8.6)
Tobacco			5.8	7.5
Media interests			(35.0)	(14.9)
NAR Group			(8.4)	(1.2)
Operating profit			466.2	354.1

Note: Amounts shown in respect of other activities include operating costs which are incurred centrally and not allocated to a specific business segment.

Tobacco In January 1996 Richemont merged its tobacco interests with those of Rembrandt Group Limited. The tobacco interests of Rembrandt now form the Southern Africa region of Rothmans International and the results of the new region are therefore only included in the Group's reported results for the current period. In order to more readily permit the comparison of tobacco operating results, the comparative figures shown in the analysis that follows have been adjusted to include the results of the Southern Africa region. The commentary that follows discusses Rothmans International's operating results including a full six months' sales revenues and operating profit for Southern Africa for both periods.

Outlook It is expected that the trading results of Rothmans International for the year to March 1997 will be satisfactory. The rate of growth achieved in the first six months is unlikely to be maintained, however, due to the strengthening of sterling.

Vendôme's results for the second half of the previous financial year were affected by several unfavourable external events, which had a significant effect on the results in the important pre-Christmas period. Provided such unfavourable events do not recur, it is anticipated that the Group's luxury goods interests will show increases in sales revenues and operating profits in Swiss franc terms in the remainder of this year.

In terms of Richemont's media interests, it is anticipated that the merger of NetHold and Canal+ will not be completed until the final quarter of the current financial year. The Group's results for the remainder of the year will therefore reflect the planned costs of further developing NetHold's business, in particular in relation to the introduction of digital technology and sports channels in a number of European and African markets.

In view of these factors, together with the need to take account of the recent strength of sterling, we believe that the Group's overall profitability for the current financial year as a whole will continue to reflect the trend seen in the first six months of the year.

Nikolaus Senn
Chairman

Johann Rupert
Managing Director

Compagnie Financière Richemont AG

Zug, 2 December 1996

Consolidated Balance Sheet

	30 Sept 1996 £ m	31 March 1996 £ m
Fixed assets		
Tangible	723.4	680.7
Investments in associated undertakings	339.4	402.9
Other long-term investments	121.6	125.4
	1 184.4	1 209.0
Net working capital	1 310.0	938.2
Net operating assets	2 494.4	2 147.2
Goodwill	1 807.6	1 646.8
Net borrowings	(698.6)	(240.1)
Cash and cash equivalents	480.4	829.9
Long-term borrowings	(1 179.0)	(1 070.0)
Other long-term liabilities	(634.4)	(636.1)
	2 969.0	2 917.8
Capital employed		
Unitholders' funds	1 937.8	1 924.6
Minority interests	1 031.2	993.2
	2 969.0	2 917.8

Investments in associated undertakings decreased by £63.5 million to £339.4 million at 30 September 1996, largely as a result of the Group's share of the losses of associates for the first half of the year together with the impact of exchange rate effects.

The increase in net working capital and the corresponding increase in net borrowings are largely attributable to Rothmans International's acquisition of the Burrus group in July 1996 as well as short-term financing provided by Richemont to NetHold.

Goodwill increased by £160.8 million to £1 807.6 million at 30 September 1996. The increase was largely due to goodwill arising on the acquisition of the Burrus group, partly offset by the amortisation charge for the period under review.

	Net sales revenue		Operating profit	
	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m	Six months ended 30 Sept 1996 £ m	Six months ended 30 Sept 1995 £ m
Europe	710.1	691.1	119.7	115.1
Africa and the Middle East	327.3	323.8	108.8	123.4
Americas	156.4	140.0	49.8	43.3
Asia	259.6	228.8	75.6	66.1
Pacific	186.6	156.5	41.4	1.9
Rothmans International and its subsidiary undertakings	1 640.0	1 540.2	395.3	349.8
Share of associated undertakings			5.8	7.5
Operating profit			401.1	357.3
Pre-acquisition results of the Southern Africa region			–	(93.2)
Operating profit as reported			401.1	264.1

The worldwide volume of cigarette and other tobacco product sales by Rothmans International group companies was some 5 per cent higher than that achieved in the six months ended 30 September 1995. The principal gains were achieved in the Middle East, the former Soviet Union, Vietnam, Switzerland (due to the acquisition of the Burrus group in July 1996), Malaysia and Australia. These gains outweighed lower volumes in Southern Africa and the mature markets of Western Europe. Net sales revenue increased by £99.8 million (6.5 per cent) to £1 640.0 million, despite the adverse impact of exchange rate movements on the translation of the sales of subsidiary undertakings reporting in currencies other than sterling.

Operating profit in the period under review increased by £43.8 million (12.3 per cent) to £401.1 million, with the major improvement being in the Pacific region which suffered last year from the effects of the price war in Australia. The key factors behind the change in operating profit in each geographical region are summarised overleaf.

• Higher operating profit in Europe was largely due to the inclusion of the Burrus group for the three months to 30 September 1996.

• The decrease in profits in Africa and the Middle East was due to the impact of the weakening of the South African rand.

• In the Americas the improvement in operating profit was due to improved volumes and price increases in Canada.

• Increased volumes in Malaysia, Vietnam and Singapore resulted in improved profits in Asia.

• The substantial improvement in the Pacific region was primarily due to more moderate levels of price discounting in Australia during the period. Operating results in that market improved by £ 36.6 million from a loss of £ 7.8 million to a profit of £ 28.8 million.

Luxury goods In terms of the Swiss franc, Vendôme's reporting currency, net sales revenue from luxury goods increased by 3.3 per cent. The period under review saw continued improvement in economic conditions in many of Vendôme's major markets and this was reflected in increased demand for the group's products. Sales revenues were impacted, however, by a reduction in tourist spending in the Far East. This, together with the effects of a weakening yen, has diluted, in Swiss franc terms, the growth achieved in Vendôme's other markets. On translation into sterling, net sales revenue from the Group's luxury goods interests was slightly higher than the first half of last year at £ 703.6 million.

Jewellery sales decreased by 15.2 per cent, reflecting in particular a fall in the number of high value jewellery pieces sold in the period under review. Vendôme's other jewellery ranges showed increases in sales as a result of good underlying demand. Sales of watches increased by 13.4 per cent, benefiting from the introduction of particularly successful new models. Leather goods sales were affected by the decline in tourism in the Far East and were virtually unchanged, despite significant new product launches in the last twelve months. Sales of writing instruments were 4.5 per cent higher than the six month period to 30 September 1995.

Vendôme's operating profit was virtually unchanged from the first half of last year at SFr 209.7 million. This was achieved despite the decrease in tourist spending in the Far East and significant investment in a number of areas. Operating expenses increased, reflecting costs incurred in connection with the strengthening of Vendôme's retail network, the improvement of the quality of the wholesale network and advertising for major new products. In sterling terms, operating profit from the Group's luxury goods interests decreased by £ 2.9 million (2.6 per cent) to £ 110.4 million, reflecting the weakening of the Swiss franc against sterling in the period under review.

Media interests During the first half of the current financial year, NetHold's business has expanded further, in particular with the launch of digital pay-television services in a number of African and European markets in which the group operates.

NetHold's revenues increased substantially in the period under review, largely reflecting the impact of the subscriber growth achieved in a number of territories in the last year along with the benefit of price increases. At 30 September 1996, the subscriber base totalled some 2.8 million subscribers.

Operating results from existing analogue services continued to improve, primarily as a result of the subscriber growth achieved in the last year. The level of investment required to support the digital launches, most notably in securing premium programming for the new services, has had a significant adverse impact on the results for the period. As a consequence, Richemont's share of NetHold's operating losses increased by £ 20.1 million to £ 35.0 million. In the past we have repeatedly stated that Richemont would have to invest further funds to secure a strong base. This increase was therefore in line with expectations.

Merger of NetHold and Canal+ In September 1996, Richemont and its partner in NetHold, MIH Holdings Limited, agreed in principle with the French pay-television group, Canal+, to merge the European operations of NetHold with those of Canal+. The merger will create one of the largest pay-television groups in the world which, with over 8.5 million subscribers, will have a significant position in a number of Western European markets and a presence in several growing markets in Central Europe. By combining the strengths and expertise of the two groups, the new entity will be more able to exploit the opportunities offered by the introduction of digital broadcasting technology.

Richemont's results for the period under review do not reflect any impact of the merger as negotiations are currently in progress to finalise the definitive agreements needed to implement the transaction. The time required to complete this process, along with the need to obtain a number of regulatory and other approvals for the transaction, mean that it is unlikely that the merger will be completed until the final quarter of the current financial year. The anticipated impact of the transaction on Richemont's earnings will therefore only be reflected in the next financial year.

NAR Group Limited Through its principal subsidiary, Hanover Direct, NAR Group is primarily focused on the specialty catalogue marketing industry in the United States. In the first six months of its financial year, Hanover Direct reported increased operating losses, reflecting in particular difficulties in the company's 'Domestications' catalogue business and costs relating to continuing start up problems at its new distribution facilities. The company has implemented a number of cost reduction and productivity measures and has strengthened its senior management team. Richemont's share of NAR Group's operating loss increased by £ 7.2 million against the first half of last year to £ 8.4 million.