RICHEMONT

INTERIM REPORT 1998

ATTACHMENT
CONSOLIDATED PROFIT AND LOSS ACCOUNT ON A REPORTED BASIS

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 1998 was £ 82.3 million (1997: £ 53.4 million). At the attributable profit level, after deduction of minority interests, the amortisation charge amounted to £ 68.5 million (1997: £ 39.1 million).

Note 2 – Accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies as those set out on pages 53 to 55 of the Annual Report for the year ended 31 March 1998.

Note 3 – Swiss Stock Exchange compliance

The interim financial statements comply with the listing rules of the Swiss Stock Exchange.

RICHEMONT, the Swiss tobacco and luxury goods group, announces its unaudited results for the six month period ended 30 September 1998.

	September 1998	September 1997	
Net Sales Revenue			
– at actual exchange rates	**£ 2 192.0 m**	£ 2 316.3 m	– 5.4 %
– at constant exchange rates	**£ 2 409.0 m**	£ 2 316.3 m	+ 4.0 %
Operating Profit			
– at actual exchange rates	**£ 479.1 m**	£ 564.2 m	– 15.1 %
– at constant exchange rates	**£ 550.1 m**	£ 564.2 m	– 2.5 %
Profit Attributable to Unitholders	**£ 193.9 m**	£ 200.6 m	– 3.3 %

The operating and attributable profit figures shown above exclude the effects of goodwill amortisation from the results for both periods.

- Net sales revenue in constant currency terms increased by 4.0 per cent to £ 2 409.0 million. The Group's results were, however, adversely affected by the weakness of certain key currencies against sterling during the period. Consequently, currency translation effects amounting to £ 217.0 million resulted in a downturn of 5.4 per cent in net sales revenue at actual exchange rates.
- The Group's tobacco operations, held through Rothmans International, achieved good underlying operating profit growth of 5.8 per cent (£ 24.4 million) at constant exchange rates on a comparable basis after elimination of the one-off excise duty gain reported in the first six months of the previous financial year. However, after adjusting for adverse currency translation effects of £ 63.4 million and non-recurrence of the excise duty gain of £ 36.2 million, operating profit declined by £ 75.2 million to £ 380.5 million.
- Richemont's luxury goods business, held through Vendôme Luxury Group, reported an increase of 4.3 per cent in net sales revenue to SFr 1 728.2 million. This was achieved notwithstanding a difficult trading environment. A decline in sales in the Far East was more than compensated by increases elsewhere, most notably in Europe where sales were 17.4 per cent higher. However, planned increases in marketing and other operating expenses in the period more than offset the benefits of this growth, resulting in a decline of 6.3 per cent in operating profit to SFr 258.6 million.
- For the six month period, Richemont's profit attributable to unitholders and earnings per unit (excluding the effect of goodwill amortisation) fell by 3.3 per cent to £ 193.9 million and £ 33.77, respectively.

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. Given the material impact of exchange rate movements on the results for the period, the table has been presented to show sales and operating profit expressed at constant exchange rates as well as at actual rates.

	September 1998		
	At actual exchange rates	At constant exchange rates	Sept 1997
	£ m	£ m	£ m
Sales revenues			
Tobacco	1 486.6	1 670.4	1 623.2
Luxury goods	705.4	738.6	693.1
	2 192.0	2 409.0	2 316.3
Operating profit			
Tobacco	380.5	443.9	455.7
Luxury goods	105.6	113.3	115.4
Other	(7.0)	(7.1)	(6.9)
Total	479.1	550.1	564.2

The Group's net sales revenue increased by 4.0 per cent at constant exchange rates. However, the weakness of certain key currencies against sterling compared to the prior period has had an adverse impact on this positive result, leading to a decrease in net sales revenue of 5.4 per cent at actual exchange rates.

Group operating profit declined by 2.5 per cent at constant exchange rates. This result was distorted by the non-recurrence of the windfall excise duty gain of £ 36.2 million reported by Rothmans International in the first six months of the previous financial year. Adjusting the prior year's results to eliminate this one-off gain, operating profit in the period under review grew at constant exchange rates by £ 22.1 million or 4.2 per cent. The impact of exchange rate movements therefore reduced the Group's operating profit by £ 71.0 million.

Operating losses of £ 7.0 million from other interests largely reflect losses arising from Richemont's 15 per cent interest in Canal+, Europe's leading pay television operator, and its 49 per cent interest in Hanover Direct, a leading direct to home catalogue retailer in the United States.

ATTACHMENT
CONSOLIDATED PROFIT AND LOSS ACCOUNT ON A REPORTED BASIS

	Sept 1998	Sept 1997
	£ m	£ m
Operating profit	479.1	564.2
Goodwill amortisation (Note 1)	(82.3)	(53.4)
Profit before net investment expense and taxation	396.8	510.8
Net investment expense	(30.6)	(13.3)
Profit before taxation	366.2	497.5
Taxation	(141.1)	(174.7)
Profit after taxation	225.1	322.8
Minority interests	(99.7)	(161.3)
Profit attributable to unitholders on a reported basis	125.4	161.5
Earnings per unit on a reported basis	£ 21.84	£ 28.13

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

	Sept 1998	Sept 1997
	£ m	£ m
Profit attributable to unitholders on a reported basis	125.4	161.5
Elimination of goodwill amortisation	68.5	39.1
Goodwill amortisation	82.3	53.4
Goodwill amortisation attributable to minority interests	(13.8)	(14.3)
Profit attributable to unitholders on an adjusted basis	193.9	200.6

THE weakness in certain currencies which are particularly important to Rothmans International – notably the Malaysian ringgit, the South African rand and the Australian dollar – which manifested itself in the first six months of the year will continue to adversely effect both sales and operating results, albeit potentially to a lesser degree. Equally, trading conditions remain difficult in a number of markets, most notably Russia, and sales volumes are therefore not anticipated to improve in the short term. Notwithstanding these effects, however, we anticipate that trading results in the second half of the year will be satisfactory.

The performance of Richemont's luxury goods business is inevitably linked to consumer confidence and trends in the world's leading economies. Although it is not possible to make any reliable predictions as to developments in this respect, the relative stability since the upheavals of August and September of this year lead us to view the important pre-Christmas season with a degree of cautious optimism. In addition, in accordance with Vendôme's operating plan, the rate of increase in operating expenses in coming months will be lower than that seen in the first half of the current year.

Despite the fragile state of world economies, we believe that Richemont's businesses continue to be relatively resilient. Based on prevailing foreign exchange rates and in the absence of any further significant deterioration in economic conditions around the world, we are hopeful that Richemont's attributable earnings (excluding goodwill amortisation and exceptional items) for the year as a whole will not be below the level reported in respect of the previous year.

Nikolaus Senn
CHAIRMAN

Compagnie Financière Richemont AG

Johann Rupert
CHIEF EXECUTIVE

Zug, 26 November 1998

TOBACCO – The world-wide volume of cigarettes sold by Rothmans International amounted to 105 billion cigarettes or cigarette equivalents – some 3.2 per cent lower than that achieved in the six months ended 30 September 1997. Despite the economic difficulties prevailing in a number of markets during the period, volume levels in many territories were maintained and, in some instances, increased. The Asia and Pacific regions reported strong volume growth, with good progress being made in Indonesia and Vietnam. However, this was offset by declines in several markets most notably in Central and Eastern Europe (including the CIS), South Africa and certain markets in the Middle East.

The table set out below analyses net sales revenues and operating profit by geographic areas of operation. Given the material impact of exchange rate movements on the results for the period, the analysis shown is at constant exchange rates with a reconciliation to actual exchange rates.

	Net sales revenue		Operating profit	
	Sept 1998	Sept 1997	Sept 1998	Sept 1997
	£ m	£ m	£ m	£ m
Europe	690.4	688.2	137.4	147.5
Africa and the Middle East	353.8	333.5	119.0	91.8
Americas	153.7	156.7	46.1	51.9
Asia	283.2	275.3	90.6	86.0
Pacific	189.3	169.5	41.0	70.0
Rothmans International and its subsidiary undertakings	1 670.4	1 623.2	434.1	447.2
Share of associated undertakings	–	–	9.8	8.5
At constant exchange rates	1 670.4	1 623.2	443.9	455.7
Exchange adjustment	(183.8)	–	(63.4)	–
At actual exchange rates	1 486.6	1 623.2	380.5	455.7

Notwithstanding the decline in sales volumes, net sales revenue at constant exchange rates increased by 2.9 per cent to £ 1 670.4 million. This reflects a combination of price increases together with an improvement in the sales mix with volume declines impacting most heavily on non-premium brands. After adverse currency effects of £ 183.8 million, net sales revenue at actual exchange rates declined by 8.4 per cent to £ 1 486.6 million.

Operating profit was £ 75.2 million below that of the comparative period. However, after adjusting for the impact of foreign exchange translation (£ 63.4 million) and the non-recurring windfall excise duty gain of £ 36.2 million in Australia in the prior period, underlying operating profit increased by £ 24.4 million, an increase of 5.8 per cent.

Operating profit at constant rates in respect of the geographic regions set out above was influenced by the following key factors:

- In Europe, the Group benefited from continued profit growth in a number of its mature, profitable markets in Western Europe, such as Switzerland, the United Kingdom, Benelux and Ireland. This was more than offset, however, by a significant decline in profitability in Central and Eastern Europe, in particular Russia, reflecting the general economic problems in that area.
- Strong operating profit growth of £ 27.2 million was achieved in Africa and the Middle East, reflecting growth across the region as a whole. Volume downturns were more than compensated by higher profitability as a result of price increases together with cost savings.
- The operating profit decline in the Americas region of £ 5.8 million was almost entirely attributable to the marked slowdown in the USA premium cigar market, the important Canadian market reporting results in line with last year.
- Notwithstanding the significant economic problems in Asia, this region reported a £ 4.6 million increase in operating profit. In the Malaysian market volumes increased marginally, leading to a slight improvement in profit in local currency terms. Results in the Japanese market improved significantly, reflecting the benefit of cost cutting measures in the previous year.
- The comparison of results in the Pacific region is distorted by the non-recurrence of the £ 36.2 million windfall excise duty gain reported in the prior period. Excluding this item, operating profit in the region increased by £ 7.2 million, with both Australia and New Zealand reporting good growth as a result of price increases.
- The increased profit resulting from interests in associated undertakings principally reflects the continued strong results from the Jamaican cigarette operation.

	Sept 1998 £ m	Sept 1997 £ m
Operating profit	479.1	564.2
Depreciation and other non cash items	58.4	40.5
Decrease / (increase) in working capital	72.9	(269.5)
Net cash inflow from operating activities	610.4	335.2
Returns on investments and servicing of finance	(30.1)	(28.1)
Taxation paid	(192.0)	(147.2)
Net acquisitions of tangible fixed assets	(71.7)	(79.2)
Other acquisitions of subsidiary and associated undertakings, minority interests and investments, net of disposals	6.2	(23.9)
Net cash inflow before financing activities	322.8	56.8
Financing activities	3.5	(93.4)
Dividends paid	(151.7)	(172.3)
Net cash inflow/(outflow) after financing activities	174.6	(208.9)
Exchange rate effects	15.6	(35.9)
Increase/(decrease) in cash, cash equivalents and short-term borrowings	190.2	(244.8)

Net cash inflow from operating activities increased substantially from £ 335.2 million to £ 610.4 million. This was largely attributable to a significant reduction in working capital within Rothmans International.

Dividends paid fell by £ 20.6 million, reflecting the non-recurrence of dividend payments to Vendôme Luxury Group minority shareholders and lower dividend payments to minority shareholders in Rothmans International companies. These were partially offset by an increase in the level of dividends paid to Richemont unitholders.

The net increase in cash and cash equivalents during the period of £ 190.2 million results in a movement from a net short term borrowing position of £ 147.0 million at 31 March 1998 to a net cash and cash equivalents balance of £ 43.2 million at 30 September 1998.

	30 Sept 1998	31 March 1998
	£ m	£ m
Fixed assets		
Tangible	718.8	700.2
Investments in associated undertakings	332.7	321.5
Other long-term investments	131.4	138.3
	1 182.9	1 160.0
Net working capital	1 171.0	1 263.8
Net operating assets	2 353.9	2 423.8
Goodwill	2 764.8	2 757.9
Net borrowings	(1 526.8)	(1 627.4)
Cash, cash equivalents and short-term borrowings	43.2	(147.0)
Long-term borrowings	(1 570.0)	(1 480.4)
Other long-term liabilities	(495.9)	(504.7)
	3 096.0	3 049.6
Capital employed		
Unitholders' funds	2 524.3	2 430.6
Minority interests	571.7	619.0
	3 096.0	3 049.6

Net working capital decreased by £ 92.8 million due to a substantial reduction in inventories partially offset by a reduction in the level of current liabilities. These reductions largely reflect the stock building policy of Rothmans International in the United Kingdom, linked to the timing of excise duty increases, at the end of the previous financial year.

Net borrowings decreased by £ 100.6 million in the six months to 30 September 1998. This reflected the significant reduction in working capital within Rothmans International, particularly the reduction of inventories in the United Kingdom. This was partially offset by increased borrowings to finance working capital requirements in Vendôme Luxury Group.

The marginal increase in goodwill to £ 2 764.8 million at 30 September 1998 reflects foreign exchange effects, offset by the amortisation charge for the period.

LUXURY GOODS – Vendôme Luxury Group's net sales revenue increased by 4.3 per cent over the first half of last year to SFr 1 728.2 million. This reflected continued growth in Europe and the Americas, partially offset by a downturn in sales in the Far East. Although gross margins have been maintained at 64 per cent of net sales revenue, operating profit decreased by 6.3 per cent from SFr 275.9 million to SFr 258.6 million as a consequence of higher operating costs. These cost increases resulted from planned marketing and other brand development expenses incurred over the last twelve months, which therefore had a disproportionate impact on the results when compared to the first six months of the previous year.

The table below analyses sales by major product line.

	Sept 1998	Sept 1997	
	SFr m	SFr m	
Jewellery	347.1	292.9	+ 18.5 %
Watches	759.6	764.0	– 0.6 %
Writing instruments*	141.3	145.8	– 3.1 %
Leather goods	159.1	128.0	+ 24.3 %
Menswear	84.7	96.2	– 12.0 %
Other	236.4	229.6	+ 3.0 %
	1 728.2	1 656.5	+ 4.3 %

*Sales of writing accessories have been reclassified as 'other' sales, resulting in an adjustment to the comparative figure previously reported.

Sales in all product areas were adversely impacted by the downturn in the Far East, with the exception of jewellery sales which increased substantially. This was principally due to higher retail sales at Cartier. The decrease in sales of writing instruments reflected the continuing impact of the programme initiated by Montblanc in the previous year to exercise greater control over its distribution network. The increase in sales of leather goods reflected the acquisition of Lancel in October 1997, offset to some extent by lower sales by other brands.

Net sales revenue by geographic area is shown in the following table:

	Sept 1998	Sept 1997	
	SFr m	SFr m	
Europe	742.7	632.6	+ 17.4 %
Far East	559.3	632.6	– 11.6 %
Americas	356.0	341.1	+ 4.4 %
Other	70.2	50.2	+ 39.8 %
	1 728.2	1 656.5	+ 4.3 %

Sales in Europe continued to grow well, aided in particular by the inclusion of Lancel, with Cartier and Montblanc showing the highest levels of growth. Sales in the Far East showed a decrease against the prior year's record high, as the economic turmoil in many countries in the region affected consumer confidence. Notwithstanding the fall in sales elsewhere in that region, most notably in Hong Kong, sales in the important Japanese market have grown by some 5 per cent.

Sales through the Group's network of owned stores increased by 11.4 per cent, to SFr 652.1 million, representing 37.7 per cent of total sales and reflecting the Group's strategy of expanding its retail presence. Sales through wholesale channels remained broadly in line with last year, amounting to SFr 1 076.1 million.

ASSOCIATED COMPANIES

PAY TELEVISION – Richemont's interest in pay television is held through a 15 per cent interest in Canal+ of France. Canal+ operates analogue and digital services in France, Spain, Italy, Scandinavia, the Benelux, francophone Africa and Poland and had some 10.7 million subscribers in these territories at 30 September 1998.

In the six months to June 1998, Canal+'s revenues increased by 12.4 per cent from the prior year on a comparable consolidation basis. This increase reflects the consolidation of the former NetHold territories for six months in the current period and three months in the prior period. Richemont's share of Canal+'s operating losses for the six months to June 1998 was £ 1.6 million compared to a loss of £ 1.0 million in the prior period. The losses reflect the exceptional programme costs related to the coverage of the World Cup and continued losses from international development initiatives, especially in Spain and Italy, where the group's digital services are expanding rapidly.

DIRECT RETAILING – Richemont's interest in direct retailing is held through a 49 per cent interest in Hanover Direct, one of the leading direct to home retailers in the United States.

In the six months to 30 June 1998, Hanover Direct reported decreased operating losses compared with the prior period. The decrease reflected an improved gross margin, productivity improvements in telemarketing and fulfilment, increased revenues from continuing operations and other on-going cost reductions. These cost reductions were offset by an increase in selling expenses, primarily due to increased catalogue circulation costs. Richemont's share of Hanover Direct's operating loss for the six months to June 1998 was £ 1.4 million compared to a loss of £ 1.8 million in the prior period.

To facilitate the comparison of the Group's results against the prior period, the summary profit and loss account set out below is presented on an adjusted basis, which excludes the effects of goodwill amortisation from the results for both periods. A reconciliation of this profit and loss account to the Group's results on a reported basis is presented as an attachment to this report.

	Sept 1998 £ m	Sept 1997 £ m
Operating profit at constant exchange rates	550.1	564.2
Adjustment to actual rates	(71.0)	–
Operating profit at actual exchange rates	479.1	564.2
Net investment expense	(30.6)	(13.3)
Profit before taxation	448.5	550.9
Taxation	(141.1)	(174.7)
Profit after taxation	307.4	376.2
Minority interests	(113.5)	(175.6)
Profit attributable to unitholders	193.9	200.6
Earnings per unit	£ 33.77	£ 34.94

Net investment expense increased to £ 30.6 million from £ 13.3 million in the prior period. The increase reflected a rise of £ 13.4 million at Rothmans International, principally in relation to the financing of duty paid stocks in the United Kingdom, together with an increase of £ 9.9 million reported by Vendôme Luxury Group, principally arising from the financing of the buy-out of the minority interests in the Group's luxury businesses.

The Group's effective taxation rate was largely unchanged at 31.5 per cent, with the tax charge declining from £ 174.7 million in the prior period to £ 141.1 million in the period under review, reflecting the decrease in profit before tax.

Minority interests decreased from £ 175.6 million in the prior period to £ 113.5 million in the first six months of the current year. This largely reflected the impact of the buy out of the public shareholders in Vendôme Luxury Group which took effect at the end of the previous financial year. The Group's minority interests now principally represent minority shareholder interests in respect of Rothmans International.

Profit attributable to unitholders and earnings per unit, adjusted to exclude goodwill amortisation, decreased by 3.3 per cent to £ 193.9 million and £ 33.77, respectively.