RICHEMONT

ANNUAL REPORT AND ACCOUNTS 2003

CONTENTS

Opposite

"Tutti Frutti" necklace by Cartier, 1936

This necklace was a special order from Mrs Daisy Fellowes, and adapted in 1963 by her daughter, the Comtess de Castéja to its present form. It is an exceptional example of the craftsmanship, quality and creativity for which Cartier is globally renowned.

From the Art de Cartier collection

RICHEMONT

Richemont is one of the world's leading luxury goods groups.

The Group encompasses several of the most prestigious names in the industry including Cartier, Van Cleef & Arpels, Piaget, Vacheron Constantin, Jaeger-LeCoultre, IWC, Alfred Dunhill and Montblanc.

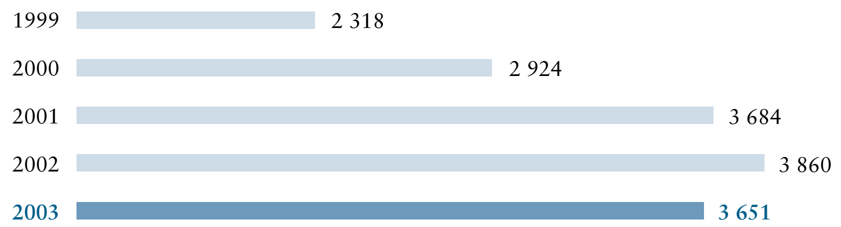
Each of the Group's brands represents a proud tradition of style, quality and craftsmanship which Richemont is committed to preserving.

The individual heritage and identity of each maison is rigorously guarded, the Group's designers and craftsmen being constantly challenged to keep the heritage alive through a continuous process of reinvention and innovation.

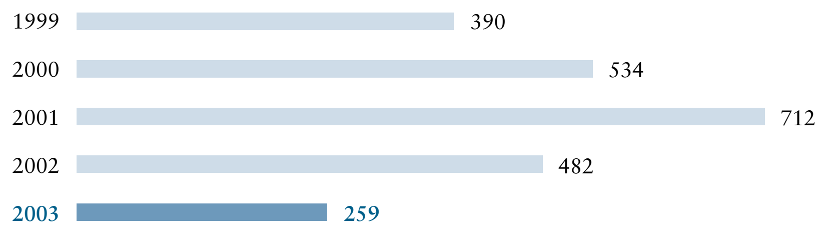
FINANCIAL HIGHLIGHTS

All amounts in euros	2003	2002	
Sales	**3 651 m**	3 860 m	– 5%
Operating profit	**259 m**	482 m	– 46%
Earnings per unit	**1.141**	1.463	– 22%
Dividend per unit	**0.32**	0.32	

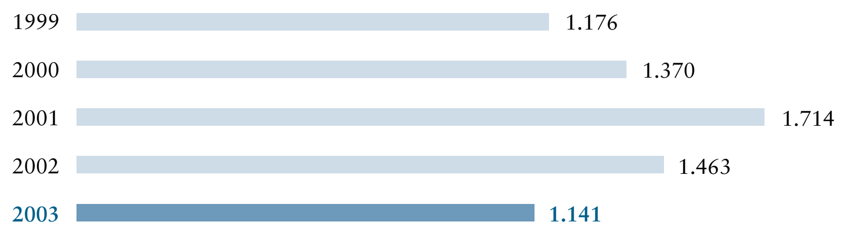
SALES (€ m)



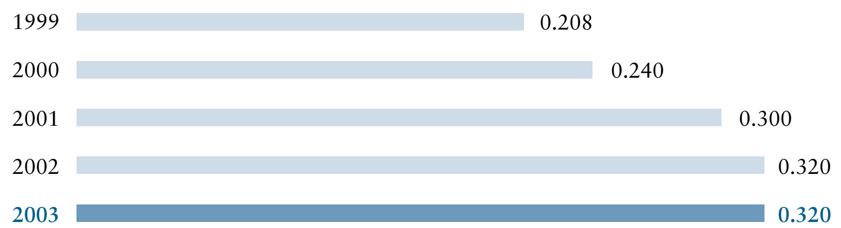
OPERATING PROFIT (€ m)



EARNINGS PER UNIT (€)



DIVIDEND PER UNIT (€)



These results are presented on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items.

EXECUTIVE CHAIRMAN'S REVIEW

Johann Rupert executive chairman

This has proved to be a very difficult year for Richemont.

Over the last three years I have repeatedly cautioned against over optimism. Fears about currency fluctuations, deflation and a probable drop in the overall equity markets were expressed. Now it is happening.

The fallout from the heady days seen in the run up to 2000 has been long and severe. Richemont has invested heavily in recent years in manufacturing capacity and in its retail and wholesale distribution infrastructure. These factors, combined with the significant tailing off of growth in demand, have resulted in pressure on both the gross margin and operating results.

Any recovery in demand over the past year would inevitably have been dependent upon an improvement in economic conditions. Rather, we have seen a year in which the Dow Jones fell by a further 23 per cent, compounding the decline of 11 per cent already seen from its peak in January 2000, whilst the MSCI World Index fell by 40 per cent in euro terms over the course of the year.

Richemont's sales during the financial year have declined by some 5 per cent overall and operating profit has slumped to € 259 million, albeit after a number of specific provisions for the restructuring of the Group's activities in certain areas. Excluding provisions of € 91 million in respect of the restructuring of specific brands and the discontinuation of some activities, operating profit would have been € 350 million. These results are not heartening.

The Group's jewellery maisons – Cartier and Van Cleef & Arpels – showed a decline in turnover of some € 185 million or 8 per cent in the year under review. However, a large part of this decline, some 5 per cent, was attributable to the strengthening of the euro against both the yen and the dollar during the period. The decline in tourism and the poor economic climate, particularly in Europe, have had a significant impact on these businesses, notwithstanding the fact that sales of products at the top end of the market have held up well.

Sales of the Group's specialist watchmaking companies for the year as a whole were in line with the prior year's levels. Panerai, one of our smaller brands, continues to show very strong growth, justifying the faith that we have put in it, whilst the brands acquired in December 2000, Jaeger-LeCoultre, IWC and A. Lange & Söhne, have now been fully integrated into the Group's distribution structures and virtually all of the third-party distributorships terminated. All three companies showed growth in sales during the year.

Our writing instrument businesses, Montblanc and Montegrappa, saw sales grow by some 4 per cent during the year. This reflected the further development of Montblanc's own retail operations as well as the benefit derived from new product launches and the further expansion of the maison's activities in terms of leather goods, watches and accessories.

Alfred Dunhill has had a difficult year, with sales some 7 per cent below the prior year's level. Although the brand is currently the Group's largest business in mainland China, its business in certain other markets, most notably the United States, has been in decline in recent years. The Alfred Dunhill name is widely recognised as one of the leading luxury goods brands for men and Alfred Dunhill's management are committed to growing the business in those product areas and geographic regions where it already has strong brand recognition. In the United States, the decision has been taken to focus on the wholesale business, working with strong partners. As previously announced, the flagship store on Fifth Avenue in New York will continue to showcase Alfred Dunhill products but the other stores in the United States will be closed.

It has been a year of transition at Lancel, with steps being taken to close down loss-making boutiques in both the United States and Belgium. Attention has focused on improving the product offering and reinforcing Lancel's traditional French business. Further overseas expansion has, for the time being, been postponed and the company's operating structures streamlined. Reflecting this, the brand has reduced its overall headcount by more than 100 during the year.

For Alfred Dunhill and Lancel, the provisions for store closures and other restructuring measures of some € 52 million have significantly increased the level of operating losses. The combined losses of both brands for the year under review amounted to some € 107 million, a substantial cost to the Group.

In addition to the action already taken in respect of Alfred Dunhill and Lancel, the Group must take additional steps to optimise its manufacturing capacity as a consequence of changing market conditions. Achieving this will involve concentrating manufacturing at fewer sites and I regret to say that a number of redundancies will be unavoidable. In accordance with Richemont's manufacturing philosophy, this programme will be achieved without compromising the Group's principles of verticalisation and brand autonomy.

In respect of those measures that have already been taken to restructure the Group's manufacturing operations, together with the termination of certain lease commitments, we have identified the need for restructuring and impairment provisions of some € 39 million. These provisions have been taken into account in arriving at the results for the year ended 31 March 2003.

Additionally, the Group has now decided to cease watch assembly at the Cartier factory at Villeret in the canton of Bern. The assembly activity will be transferred to the Cartier factory at La Chaux de Fonds and some staff will be relocated there. This decision, together with other measures, will result in the loss of some 200 positions in Geneva, La Chaux de Fonds and Villeret. This represents some 5 per cent of the Group's workforce employed in the watch-manufacturing sector in Switzerland. We are in discussion with the trade unions concerned to finalise a social plan for the employees involved. Given the timing of the decision and in accordance with International Financial Reporting Standards, the costs of these restructuring measures will only be reflected in the Group's results for the six-month period ending 30 September 2003.

BRITISH AMERICAN TOBACCO

During the year, steps were taken to lock in the value of the Group's preference shareholding in British American Tobacco through the issue of call warrants secured over the shares. In consequence, Richemont now accounts for the BAT preference shares as a long-term receivable and equity accounts a smaller percentage interest of 18.6 per cent (2002: 21.0 per cent) in the ordinary equity of BAT. The Group's share of BAT's adjusted results for the current year are marginally lower at € 486 million (2002: € 495 million), reflecting the lower equity interest and the impact of the strength of the euro against sterling during the year. This significant contribution to profit from the interest in BAT is a timely reminder of the benefit of the investment in this relatively stable business. In cash terms, the Group received dividend income of € 258 million from BAT during the year.

CASH FLOW AND INVESTMENTS

The Group's working capital has been brought under control and cash flow from operating activities increased from € 286 million to € 556 million. This improvement has resulted in a significant reduction in the Group's net debt to € 1 177 million by the end of the year. Indeed, Richemont's overall net debt position is minimal when the proceeds of the BAT preference shares of some € 828 million receivable in June 2004 are taken into account.

I am pleased to report that Richemont has been able to acquire the remaining 20 per cent of Van Cleef & Arpels that it did not previously own, bringing that company into full ownership by the Group, as well as the final 10 per cent of A. Lange & Söhne that was previously held by members of the Lange family. I am delighted to say that, in both cases, members of the families will continue to be closely associated with the businesses in the future.

ACCOUNTING FOR GOODWILL

We have adopted a revised accounting policy in this year's financial statements in terms of goodwill, which merits comment. All goodwill in respect of the Group's luxury goods subsidiary companies has been set off against unitholders' equity in the consolidated balance sheet. After offsetting the aggregate goodwill of € 3.4 billion in respect of the luxury businesses, unitholders' equity still amounts to some € 5 billion. Goodwill in respect of the Group's listed associated company, British American Tobacco, will continue to be carried in the balance sheet as an element of the carrying value of the investment.

Although the elimination of goodwill in this way is not permitted under International Financial Reporting Standards, it is nonetheless an approach that we consider to be fully justified.

The goodwill reflected in the balance sheet at the end of the previous financial year in no way represented the value of the Group's trademarks, brands or other intellectual property. Rather it was an aggregation of goodwill arising on various acquisitions since 1993, when Vendôme Luxury Group was formed, net of amortisation booked over the period. Although it reflected goodwill arising on the buy-out of the minority shareholders in Vendôme in 1998, the figure did not include any specific goodwill in respect of brands such as Cartier and Montblanc. The acquisition of Les Manufactures Horlogères in December 2000 gave rise to the single largest element of the total goodwill carried on the balance sheet, which also included goodwill arising on the acquisition of Van Cleef & Arpels and Lancel.

Given the current trading environment, we must recognise that the goodwill carried in the Group's balance sheet has been impaired. However, the integration of the LMH businesses into Richemont's watchmaking group is such that it would become impossible to quantify what, if any, amount should be expensed. Equally, in determining the profitability of Richemont's individual business areas, any allocation of goodwill and the related annual amortisation charge would result in arbitrary results, given that there is no specific goodwill to amortise in respect of Cartier and Montblanc.

The Board has therefore decided that, in order to be able to present a segmental analysis of results, the most straightforward approach was to eliminate the goodwill in respect of all of the luxury goods businesses. This also avoids the necessity, in future, of having to engage in an essentially useless and costly exercise at each reporting date of attempting to evaluate the carrying value of goodwill on a business-by-business basis. That could lead to short-term thinking in an attempt to support an arbitrary goodwill figure rather than the creation of long-term brand equity.

CURRENT TRADING AND OUTLOOK FOR THE YEAR

Trading in the first two months of the current year has been poor, with aggregate sales in constant currency terms down by 19 per cent for the period. This reflected the impact of the war in Iraq and the more dramatic effects of the SARS epidemic. Taking into account the adverse currency impact of some 8 per cent, as a result of the further rise of the euro against both the dollar and the yen, sales at actual exchange rates were some 27 per cent below the prior year's level. Consumer confidence is very weak and, combined with a significant reduction in international travel as a consequence of the war and concerns about the spread of SARS, most of our maisons have suffered a downturn in demand compared to the same two-month period last year. We can hope that the worst consequences of these external factors are behind us, but I find it very hard to predict what the outlook for the remainder of the year will be.

Clearly, Richemont must adapt to the environment in which we live. It is unlikely that we will see a rapid turnaround in the economic climate and the challenge for this year is to reduce the Group's cost base both within each of the maisons and, equally, in our central and regional structures. These structures were established at a time when growth expectations far exceeded what we are currently experiencing. Customer-oriented areas, for example after-sales service, are of course key to the long-term growth of our business and will not be compromised. We must, however, cut costs and reduce bureaucracy and overheads in the Group as a whole.

In addition to the steps that have already been taken, I will be encouraging my colleagues across the Group to implement further cost reduction programmes during the coming year. Cost cutting alone, however, will not build the business. Rather, we must focus on the Group's core strengths in terms of authenticity, creativity, design and quality, as these will be the true drivers of future growth.

In summary, my fears about the effects that currency movements, deflation and dropping equity values have had on the demand for luxury goods are being realised. The combination of global economic uncertainty and geopolitical instability is unprecedented, and could last for some time.

However, it is disingenuous to blame all our woes on external factors, and I will not do so. The "good years" led to contentment, and, when contentment sets in, progress ceases. Therefore, to my embarrassment, Richemont was not as prepared as it should have been for these changed circumstances. We were too slow. We are therefore addressing a number of key issues.

Richemont has remarkable "maisons", a strong balance sheet and a good cash flow. We will endeavour to be a much stronger and leaner company when the recession ends.

Johann P. Rupert.

Johann Rupert
EXECUTIVE CHAIRMAN

Compagnie Financière Richemont SA
5 June 2003

The IWC Portuguese Perpetual Calendar watch.

Cartier

Since its creation over 150 years ago, Cartier has distinguished itself as an undisputed authority in the world of luxury goods.

This year has been one of creativity and imagination where Cartier has explored new territories and original forms of expression.

The brand introduced its unique and inspirational *Le Baiser du Dragon* collection, a modern interpretation of Cartier's long and rich association with China.

Cartier's high jewellery range was enhanced by numerous exceptional pieces which include the *Alexandra* necklace, the *Sarpech* brooch and the *Coralie* ensemble. *Tank Divan*, the latest addition to the *Tank* watch range was successfully launched. Equally, the creative jewellery watch collection welcomed the new *Baignoire Allongée, Alcyone, Pasiphaé* and *Himalia* models. Cartier's exquisite creativity came to bear on a selection of magnificent limited edition watches, where dials are adorned with emblematic animals in enamel, gold or diamonds.

The famous store on Via Montenapoleone in Milan was extended and refurbished to become more intimate and welcoming, yet at the same time retaining its distinctive atmosphere. It defines the approach to décor that is to be adopted throughout the Cartier boutique network.

The importance of art is once again underlined this year. *Cartier Art,* a magazine for lovers of art in all its forms, was distributed worldwide in ten languages to Cartier clients. In addition, a selection of pieces from the *Art de Cartier* collection was exhibited to the public in some of the most famous museums around the world, notably in Berlin and Milan. This beautiful collection consists of a total of 1 200 Cartier masterpieces, bought either from private owners or at auction, which represent the brand's progression in terms of design, technique and creativity. In addition, the *Fondation Cartier pour l'Art Contemporain* held innovative exhibitions in Paris that continue to reflect the spirit of vitality of Cartier.

Van Cleef & Arpels

Van Cleef & Arpels became, in 1906, the first jeweller to establish itself on the Place Vendôme, where it quickly succeeded in becoming one of the most renowned creators of high jewellery, a status that remains today.

This year saw Van Cleef & Arpels successfully introduce new collections that demonstrate its unrivalled craftsmanship, exclusive quality and exceptional design beauty.

Unique pieces of high jewellery were launched, notably the outstanding *Collection of the Century*, including thirty unique pieces that together contain an exceptional array of five hundred coloured diamonds, including the breathtaking *Proust* necklace.

The more accessible ranges have also been extended, notably by the development of the *Lotus* line that follows the *Between-the-fingers* collection, which achieved great commercial success. The *Fringes* line was also launched, a collection inspired by luxurious fabrics.

To support the launch of its new creations, several events took place worldwide. There were openings of new stores in Southern California, St. Moritz and Hong Kong, which complete the brand's network of exclusive retail boutiques. In addition, Van Cleef & Arpels premiered at the prestigious Salon International de la Haute Horlogerie in Geneva.

PIAGET

Established in 1874, Piaget has confirmed its position among the watchmaking elite, and is today recognised as a creator of spectacular, handcrafted timepieces and jewellery.

This year has been highly eventful for Piaget. Its dedication to continual innovation was affirmed by new product launches: the *Upstream Power Reserve*; the *Protocole XL Power Reserve*; the exquisite *Piaget Altiplano* set with diamonds; and the launch of the celebrated and best-selling new generation of *Possession* rings.

2002 also saw Piaget hold a Paris pre-launch for the new garden-themed jewellery collection and win the top design prize of the Grand Prix d'Horlogerie de Genève 2002 for the *1967* watch.

To further accentuate Piaget's dedication to success, it opened new boutiques in particularly strategic locations, including Beijing, Yokohama, Tokyo, Bahrain, Palm Beach and Berlin, and introduced the new boutique concept in Geneva and Paris.

Last, but not least notable, was the new communication campaign, 'Piaget, the secret garden', which truly gives expression to the beauty of the brand.

VACHERON CONSTANTIN

The world's oldest watch manufacturer in continuous production since its foundation in 1755, Vacheron Constantin sets the standards of truly superior haute horlogerie.

2002 has been a noteworthy year for new products. The *31-day Retrograding Calendar* watch, with its open dial revealing an ingenious day and date mechanism, was produced in a limited series of 247 pieces in platinum. It was followed by the *Malte Moon-Phase and Power Reserve* watch that features novel 'complications' to its ladies' edition, and the *Malte Retrograding Perpetual Calendar* watch that features a semi-circular display of the date.

For the second year running, Vacheron Constantin also won the famous Grand Prix d'Horlogerie de Genève for the *Patrimony*, with its thinnest mechanical movement to date, while the *1972* model, with its famed asymmetrical line, celebrated the 30th anniversary of its winning the 'Diplôme du Prestige de la France' award.

A. Lange & Söhne
Glashütte I/SA

A. Lange & Söhne has been synonymous with high-grade watchmaking since 1845 when it was founded. After 50 years of hiatus, the brand re-emerged in 1990.

Each of the brand's watches is a superior illustration of precision mechanics, intricate workings and complex functions. At the Salon International de la Haute Horlogerie, A. Lange & Söhne presented exciting new models including the *Grand Lange 1 Luna Mundi*, Lange's first edition of an exclusive set of two watches depicting the moon phases of the northern and southern hemisphere.

During the year, A. Lange & Söhne has also seen the growth of its business in the important markets in Asia, Arabia and America, while it has consolidated its position in the German market.

Officine Panerai
Firenze 1860

Officine Panerai, founded in Florence in the 19th century, is today renowned for its professional watches of a high technological standard combined with Italian design.

2002 was once again an eventful year. Panerai launched the *Luminor Marina 1950*, an iconic limited edition watch based on the original model, the unique *Luminor Blackseal,* engraved with exquisite designs, and, in the *Radiomir* range, introduced the *Radiomir 42mm* in steel.

In September 2002, the Manufacture Officine Panerai opened in Neuchâtel, Switzerland. The manufacture integrates the whole watchmaking process: development, movements, assembly, quality control and after-sales service under one roof.

For the first time, Panerai's *Archivio Storico,* a collection which gathers together Panerai products produced during the Second World War, was presented to the public within the Palazzo Antinori in Firenze.

Jaeger-LeCoultre

Jaeger-LeCoultre is one of the last real watchmaking manufacturers, founded in 1833 by Antoine LeCoultre.

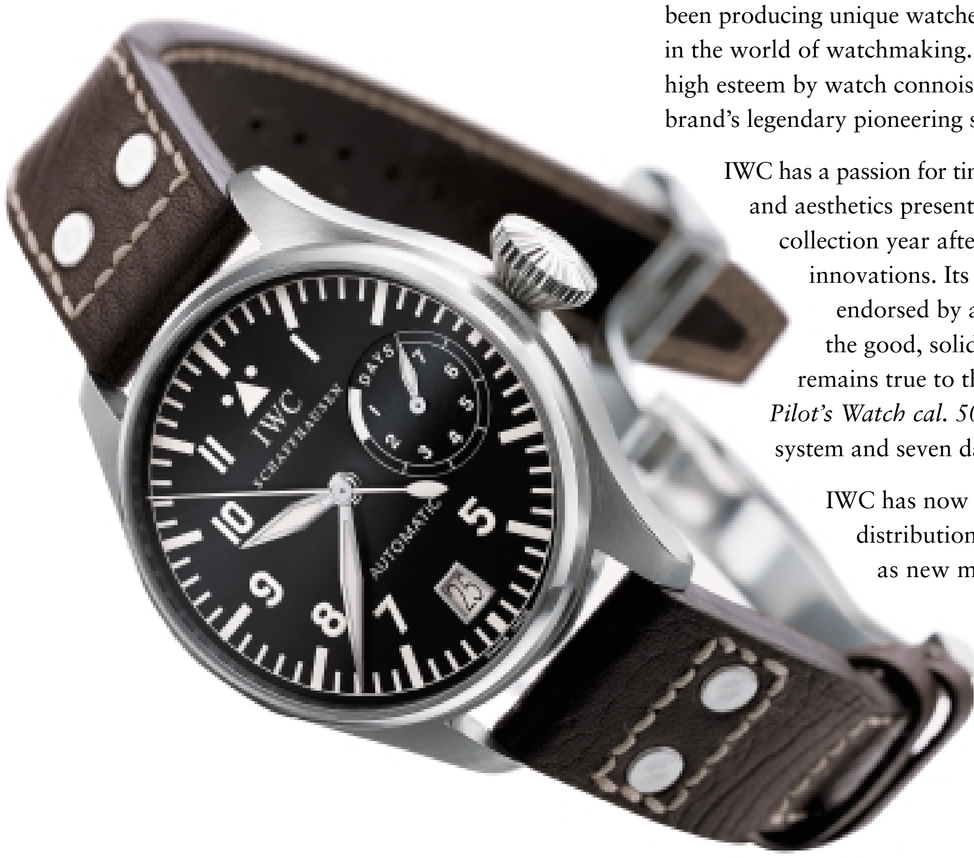
This year saw Jaeger-LeCoultre benefiting significantly from its integration into the Group. Once again the brand launched a range of successful and highly acclaimed creations of exceptional beauty and made its first appearance in April 2002 at Geneva's Salon International de la Haute Horlogerie.

This year, Jaeger-LeCoultre successfully launched two ranges, which have enabled the brand to establish itself in new market segments: the *Master Compressor* and the *Grande Reverso.* Both models have enjoyed excellent sales.

The brand's presence has grown around the world, benefiting from its integration into the established Richemont distribution platforms. This, together with the launch of exciting new products, represents a significant step forward for Jaeger-LeCoultre.

IWC

INTERNATIONAL WATCH CO. SCHAFFHAUSEN
SWITZERLAND, SINCE 1868



Since its establishment in 1868 in Schaffhausen, Switzerland, IWC has been producing unique watches that have set new standards of quality in the world of watchmaking. These exclusive timepieces are held in high esteem by watch connoisseurs the world over and epitomise the brand's legendary pioneering spirit and quest for perfection.

IWC has a passion for timeless beauty. Since technical competence and aesthetics present no barriers, the brand can expand its collection year after year with creative watchmaking innovations. Its motto, *Probus Scafusia*, is once again endorsed by an outstanding collection that expresses the good, solid craftsmanship of Schaffhausen and remains true to the IWC promise. The exemplary *Big Pilot's Watch cal. 5011* with its automatic Pellaton winding system and seven day power reserve is one such example.

IWC has now been fully integrated into Richemont's distribution structures and sales have benefited as new markets were opened up to IWC. Furthermore, IWC was a guest of the Salon International de la Haute Horlogerie in Geneva for the second time in April 2003.

BAUME & MERCIER

GENEVE · 1830

In 1830, the year of Baume & Mercier's establishment, the founding dictum was to always inspire excellence. Today this still holds true.

2002 has been a particularly exciting year for Baume & Mercier, with the launch of many new and creative products.

The *Hampton* range continues to be the bestseller line. This year, to celebrate the 172nd anniversary of the brand, the *Hampton Spirit* was launched as two limited series, each with 172 pieces in white and pink gold respectively.

Other new product launches included *Linea Variations*, a revolution in the female watch market. A truly innovative product, it is not only a watch but also a veritable jewel. *Linea* has remained the female bestseller since 1987 and is proof of the brand's visibility. The *CapeLand* for ladies was also introduced.

Baume & Mercier's distribution network remains strong, with 3 000 retailers in over 75 countries. In terms of sales, the maison's leading markets continue to be Italy, France and the USA.

Since its inauguration in 1906, Montblanc has remained synonymous with the art of writing.

Highlights of the Montblanc special editions in 2002 were the *Stars and Stripes* pen with the American flag, which was available exclusively in the United States, and the *Patrons of Art* pen paying tribute to the well-known industrialist and benefactor, Andrew Carnegie, of which a special version is awarded to the winners of the annual International Montblanc Arts Patronage Award.

A new variant of the *Bohème* pen with a crystal stone was successfully introduced. This has proved highly successful with lifestyle-oriented customers.

For its jewellery collection, Montblanc launched the precious and exclusive female version of the *Profile* watch, a strategic product line designed to enhance the brand's positioning and credibility within the jewellery watch segment of the market.

The brand's beautiful new flagship store, on the avenue des Champs Elysées, Paris, is characterised by a calm and sensual atmosphere juxtaposed with minimalism. This combination represents an evolutionary step in Montblanc's continuing development as a diversified luxury brand.

dunhill

Since Alfred Dunhill launched his *Motorities* collection of clothing and accessories for the pioneering motorist, the brand has maintained its commitment to products of distinctive quality and craftsmanship.

Acquired in the latter part of last year, a traditional bridle leather workshop in London commenced production of the *Tradition* line of hand-made leather goods and further served as a prototyping facility, enhancing the brand's creative capacity. The year ended with the launch of a new line of leather business luggage, *Sidecar*, combining timeless design with excellent functionality, which was met with great enthusiasm by all markets. Both served to strengthen Alfred Dunhill's position as a luxury leather manufacturer.

Alfred Dunhill's heritage link with motoring was further strengthened by the creation of a line of luggage and accessories for the new DaimlerChrysler Maybach. The year saw the brand's inaugural involvement with the Goodwood Festival of Speed through the sponsorship of a *Dunhill Drivers Club*, followed by a major *Motorities* event in Beijing.

The only Alfred Dunhill store dating back to the 1920s, situated at 15 rue de la Paix in Paris, was restored to its former glory and re-opened in February. The year also saw the opening of new concept stores in Kuala Lumpur, Paris, Hong Kong and Osaka.

LANCEL PARIS

Since 1876 Lancel has been lauded as an icon of French luxury, renowned and respected for the quality, creativity and reliability of its leather goods and accessories.

This year has been one of evolution for the brand. The emphasis has been directed at improving further the range of products on offer and strengthening Lancel's traditional business yet reiterating its relevance to modern times.

During the year Lancel launched the new collection – *Les Astucieux* – with a selection of bags, luggage and accessories.

Chloé

Created in Paris in 1952, the House of Chloé established iteself as the pioneer of fashionable women's luxury ready-to-wear.

Under the design expertise of Creative Director Phoebe Philo, the brand has had another noteworthy year, both in ready-to-wear and accessories. Handbags and small leather goods as well as shoes were highly acclaimed, with the *Camera* bag a major success for the maison. Jewellery and watches will be introduced next year.

2002 saw the inauguration of Chloé's stunning new boutique on Sloane Street, London, followed by openings in Monaco and Seoul. Chloé has also positioned itself to strengthen its operations in America and Asia.

On 6 March 2003, Chloé commemorated its 50th anniversary with a celebration at the famous Café de Flore in Paris, the venue of the first ever Chloé fashion show, to the delight of all Chloé aficionados, past and present.

HACKETT LONDON

Since being founded only just over twenty years ago, Hackett has established itself as the home of 'Essential British Kit' for menswear. This is true in the UK and now increasingly elsewhere, including Spain where a further concession has been opened in the El Corte Ingles department store in Barcelona. Women's wear, children's wear and accessories also represent an exciting opportunity for Hackett.

During the last year, Hackett has reaffirmed its DNA and continues to present its British style with contemporary relevance. This is projected not only through the product, which mixes cut, colour and cloth to great effect, but also through a new corporate identity.

Also helping to present the brand has been the renewal of Hackett's status as Official Supplier of formal wear to the England Rugby Union Team and its new sponsorship of Jonny Wilkinson, the England rugby star.

1867 OLD ENGLAND® PARIS

Founded in 1867 by Alexandre Henriquet in Paris, Old England soon became an established part of the Paris landscape, personifying British style and taste. This remains true today.

The year's collections focused on exclusivity with specific details in fabrics and design being a feature of the menswear collection, whilst a new exclusive line was launched for women. Innovative use of materials was strengthened by traditional production methods with great attention being paid to Old England's British heritage.

The restoration of the Lyon boutique in the summer of 2002 has also been a success with an immediate impact on sales. Restoration of the Toulouse boutique is planned for the summer of 2003.

PURDEY

Since 1814, James Purdey & Sons has provided many of the world's most distinguished and discerning people with guns and accessories of the highest quality for all their game shooting requirements.

Demand for top quality, used Purdey guns remained strong in 2002, and further progress was made in establishing Purdey in this important sector of the market. Gun repairs and servicing enjoyed a record year.

Development and further extension of the range of Purdey men's and women's shooting clothing and accessories continued and, despite the decrease in American visitors to London, was successful in attracting significant new custom to Audley House.

1912 Montegrappa

Since being founded in 1912, Montegrappa, the oldest Italian pen manufacturer, and its craftsmen have pioneered the development of new materials and the introduction of jewellery manufacturing techniques.

This year Montegrappa launched several new products. These included the *Miya* pen, part of its regular line, the *Animala*, a limited edition, which pays homage to the world of wildlife and *White Nights*, also a limited edition, which celebrates the beautiful city of St. Petersburg on the third centenary of its foundation.

CORPORATE GOVERNANCE

GENERAL PRINCIPLES

Richemont is committed to maintaining a high standard of corporate governance. It subscribes to the principles laid down in the Swiss Code of Best Practice for Corporate Governance published by 'economiesuisse', the Swiss Business Federation.

The Group's principles of corporate governance are embodied in the statutes of both Compagnie Financière Richemont SA and Richemont SA, Luxembourg, in the Corporate Governance Regulations and in the terms of reference of the Audit, Compensation and Nomination Committees of the Compagnie Financière Richemont SA Board.

This section of the annual report follows the recommendations of the Swiss Exchange 'Directive on Information Relating to Corporate Governance' ('DCG'). Headings follow the format of the DCG. In certain instances, where the issues contained in the directive do not apply to Richemont or where the amounts involved are not material, no disclosure may be given.

1. GROUP STRUCTURE AND SIGNIFICANT SHAREHOLDERS

Structure

Richemont equity units comprise shares in Compagnie Financière Richemont SA indivisibly twinned with participation certificates issued by its wholly owned subsidiary, Richemont SA, Luxembourg. As such, the Board of Compagnie Financière Richemont SA is the Group's supervisory board, composed of a majority of non-executive directors, whilst the Board of Richemont SA, Luxembourg acts as the Group's management board.

Although each of the businesses in the Group is managed independently of one another, they operate in four identifiable main business areas: (i) jewellery, (ii) watchmaking, (iii) writing instruments and (iv) textiles, leather goods and other products. Each of the business entities in the Group enjoys a high degree of autonomy, with its own central management group under a Chief Executive Officer. To complement those businesses the Group has established central functions and a regional structure around the world to provide support in terms of distribution, finance, legal and administration services.

Details of principal companies within the Group are set out opposite.

Compagnie Financière Rupert

Compagnie Financière Rupert, a partnership limited by shares established in Switzerland, holds 52 200 000 Richemont 'B' registered units representing 9.1 per cent of the equity of the Group and controlling 50 per cent of the voting rights at the level of Compagnie Financière Richemont SA. Mr Johann Rupert, the Executive Chairman of Richemont, is the sole General Managing Partner in Compagnie Financière Rupert.

The shareholder group of Compagnie Financière Rupert comprises companies which are beneficially owned by members of the Rupert, Hertzog and Hoogenhout families, by their close associates or by trusts. The beneficiaries and the trustees of the trusts are members of the Rupert and Hertzog families. An interest in Compagnie Financière Rupert is also held by a foundation established for the benefit of former employees. An agreement between the shareholders of Compagnie Financière Rupert regulates the relationship between the shareholding entities and provides for pre-emptive rights to acquire the shares in Compagnie Financière Rupert in the event that any partner would wish to dispose of its interest.

In addition to the holding of Richemont 'B' registered units, members of the shareholder group in Compagnie Financière Rupert have indicated to the Company that they beneficially hold 4 686 900 Richemont 'A' units (or 'A' unit equivalents through holdings of South African Depository Receipts), representing 0.45 per cent of the voting rights in the Company.

Details of principal companies within the Group are set out below

Country of incorporation	Name of company	Effective interest	Share capital (currency 000's)
Subsidiary undertakings			
France	Cartier SA	100.0%	€ 23 598
	Chloé International SA	100.0%	€ 131
	Lancel SA	100.0%	€ 157 462
	Old England SA	93.9%	€ 1 675
	Van Cleef & Arpels France SA	100.0%	€ 54 902
Germany	Richemont Northern Europe GmbH	100.0%	€ 28 319
	Lange Uhren GmbH	100.0%	€ 550
	Montblanc – Simplo GmbH	100.0%	€ 1 724
Hong Kong	Richemont Asia Pacific Limited	100.0%	HK$ 2 500
Italy	Richemont Italia SpA	100.0%	€ 10 000
	Officine Panerai Marketing e Communicazione Srl	100.0%	€ 90
Japan	Richemont Japan Limited	100.0%	¥ 250 000
	Alfred Dunhill Japan Limited	100.0%	¥ 400 000
	Montblanc Japan Limited	100.0%	¥ 150 000
Luxembourg	Cartier Monde SA	100.0%	€ 23 300
	Richemont Finance SA	100.0%	€ 350 000
	Richemont Luxury Group SA	100.0%	€ 3 000 000
Netherlands	Cartier International BV	100.0%	€ 13 937
	Montblanc International BV	100.0%	€ 2 886
	Van Cleef & Arpels BV	100.0%	€ 200 000
Switzerland	Baume & Mercier SA	100.0%	SFr 100
	Cartier SA	100.0%	SFr 1 000
	Cartier International SA Genève	100.0%	SFr 500
	Richemont International SA	100.0%	SFr 1 007 500
	IWC International Watch Co. AG	100.0%	SFr 5 000
	Manufacture Jaeger-LeCoultre SA	100.0%	SFr 100
	Piaget SA	100.0%	SFr 128
	Richemont Suisse SA	100.0%	SFr 4 850
	Richemont Securities SA	100.0%	SFr 100
	Vacheron & Constantin SA	100.0%	SFr 100
	Van Cleef & Arpels Logistic SA	100.0%	SFr 128 232
United Kingdom	Alfred Dunhill Limited	100.0%	£ 39 421
	Cartier Limited	100.0%	£ 4 200
	Hackett Limited	100.0%	£ 8 001
	James Purdey & Sons Limited	100.0%	£ 1 391
	Richemont International Limited	100.0%	£ 49 672
United States of America	Richemont North America Inc.	100.0%	US$ 102 179
Joint venture – tobacco			
Luxembourg	R&R Holdings SA	66.7%	£ 948 000
			Market Capitalisation
Associated undertaking – tobacco			
United Kingdom	British American Tobacco p.l.c.*	18.6%	£ 12 826 million

**British American Tobacco ordinary shares are quoted on the London Stock Exchange (ISIN GB 0002875804).*

Other significant shareholders

The Capital Group Companies Inc, Los Angeles, California formally advised the Company on 6 January 2003 that at that date client accounts and investment funds under the management of its subsidiary companies held 52 501 787 Richemont 'A' bearer units representing 5.03 per cent of the voting rights at the level of Compagnie Financière Richemont SA.

As at the date of this report the Company has received no other notifications of significant shareholdings representing in excess of 5 per cent of the voting rights.

Cross shareholdings

Richemont does not hold an interest in any company, which is itself a shareholder in the Group.

2. CAPITAL STRUCTURE

Shares and participation certificates

In accordance with the articles of incorporation of both companies, shares issued by Compagnie Financière Richemont SA have been twinned with participation certificates issued by its wholly owned subsidiary Richemont SA, Luxembourg to form Richemont 'A' and 'B' units. There are 522 000 000 'A' bearer units and 52 200 000 'B' registered units in issue. Richemont 'A' bearer units are listed on the Swiss Exchange ('SWX') and traded on virt-x, whilst the 'B' registered units are not listed and are held by Compagnie Financière Rupert, as detailed above.

Each 'A' bearer share in Compagnie Financière Richemont SA with a par value of SFr 1.00 is twinned with one participation certificate in Richemont SA of no par value to form one Richemont 'A' unit in bearer form. Every ten 'B' registered shares in Compagnie Financière Richemont SA with a par value of SFr 0.10 each are twinned with one registered participation certificate in Richemont SA with no par value to form one 'B' unit, issued in registered form. Further details are given in note 20 to the consolidated financial statements on page 60 of this report.

Holders of 'A' and 'B' units enjoy equal dividend rights. To date, dividends have not been declared in respect of the share capital issued by Compagnie Financière Richemont SA. Rather, Richemont SA, Luxembourg has distributed dividends in respect of the participation certificates in issue.

The units were split on a one hundred to one basis with effect from 12 November 2001. No other changes to the capital structure have been effected over the last three years.

Dividend

In respect of the financial year ended 31 March 2003, a dividend of € 0.32 per unit has been proposed. This is the same level as paid in respect of the previous financial year. The dividend will be paid in respect of the participation certificates issued by Richemont SA, Luxembourg on 29 September 2003. In accordance with the practice adopted in prior years, no dividend will be payable in respect of the share capital of Compagnie Financière Richemont SA.

Unit buy-back programmes

Over the course of the period from March 1999 to 31 March 2002, the Group had repurchased a total of 22 000 000 'A' bearer units through the market in support of equity-based incentive schemes for executives. In addition, the Board of Compagnie Financière Richemont SA approved further unit buy-backs of up to an overall total of 30 000 000 units over the period to September 2004.

During the year under review, the Group acquired 1 500 000 units as part of this programme and repurchased or committed to repurchase 5 525 840 'A' units from executives who were participants of the Swiss stock purchase plan, which was terminated during the year. Further details of the termination of the stock purchase plan are given below in section 5 of this report under the heading 'Stock option plan'. The repurchases during the year contributed to the reserve for own units, which forms an element of unitholders' funds in the consolidated balance sheet, increasing by € 138 million. Further details are given in note 21 to the consolidated financial statements on page 61 of this report.

Voting rights

Shares in Compagnie Financière Richemont SA have been indivisibly twinned with participation certificates issued by Richemont SA, Luxembourg to form Richemont 'A' and 'B' units.

Holders of Richemont units may attend and vote at meetings of shareholders of Compagnie Financière Richemont SA. They may attend in person or may appoint the Company or a third party to represent them at the meeting.

There is no limit on the number of units that may be held by any given party nor any restriction on the voting rights attaching to those units.

The statutes of Richemont SA provide that holders of participation certificates may vote on all issues which have a direct bearing on the participation certificate capital. They may attend in person or may appoint the Company or a third party to represent them at any such meeting. Compagnie Financière Richemont SA holds the entire issued share capital of Richemont SA. Accordingly, participation certificate holders have no right to attend meetings of shareholders of Richemont SA, Luxembourg.

Richemont 'A' and 'B' units have the same economic value. As a consequence, however, of the differing nominal values of the 'A' and 'B' shares in Compagnie Financière Richemont SA, each 'B' unit controls 10 votes at meetings of shareholders of Compagnie Financière Richemont SA, whereas each 'A' unit controls one vote. Richemont 'B' units, which represent 9.1 per cent of the Group's equity, therefore control 50 per cent of the votes at meetings of shareholders of Compagnie Financière Richemont SA. The 'B' registered units are entirely held by Compagnie Financière Rupert.

Statutory quorums

The general meeting of shareholders of Compagnie Financière Richemont SA is the ultimate decision making forum of the Company. Resolutions of the general meeting are generally passed by an absolute majority of the votes represented at the meeting. In accordance with Swiss company law, certain resolutions relating to the capital structure of the Company, the transfer of the registered office or its dissolution require the approval of two thirds of the shares represented and an absolute majority of the nominal share capital.

The annual general meeting in respect of the financial year ended 31 March 2003 will be held on 17 September 2003 in Geneva. The agenda for that meeting is set out on page 84 of this report. The notice period and agenda in respect of the meeting follow the requirements of Swiss company law. Holders of a minimum of one million 'A' units, which reflects a holding of 'A' shares in Compagnie Financière Richemont SA with a nominal value of SFrs 1 million, may request that an item be placed on the agenda for the meeting. Such requests must be submitted, in writing, at least 20 days in advance of the deadline for publication of the formal notice convening the meeting.

South African Depository Receipts

Richemont Securities SA, a wholly-owned subsidiary of Compagnie Financière Richemont SA, acts as depository for the issuance, transfer and cancellation of Richemont South African Depository Receipts ('DR's'), which are traded on the JSE Securities Exchange South Africa. DR's trade in the ratio of 10 DR's to each Richemont 'A' unit. The terms and conditions applicable to DR's are set out in the Deposit Agreement entered into between Richemont Securities SA, as Depository, and Compagnie Financière Richemont SA and Richemont SA, Luxembourg, as issuers.

In its capacity as Depository, Richemont Securities SA holds one 'A' unit in safe custody for every 10 DR's in issue. Richemont Securities SA's interest in the 'A' units that it holds is therefore non-beneficial. At 31 March 2003, Richemont Securities SA held 193 839 000 Richemont 'A' units, representing some 37 per cent of the 'A' units, in safe custody in respect of DR's in issue.

Dividends received by Richemont Securities SA are payable in rand to South African residents. Dividends are converted upon receipt by Richemont Securities SA and remitted to the holders of DR's.

Holders of DR's issued by Richemont Securities SA, are not entitled to attend the shareholders' meeting of Compagnie Financière Richemont SA or to vote in person. Rather, DR holders are canvassed as to their voting instructions by Richemont Securities SA, which then represents the wishes of the holders as their proxy at the annual general meeting.

American Depository Receipts ('ADR's')

Bank of New York operates a sponsored ADR programme in respect of Richemont 'A' units, the ADR's trading in a 1:1 ratio with the underlying units. Richemont ADR's are traded over the counter in the United States.

Transferability of units

Richemont's listed 'A' units are issued in bearer form. Accordingly, there is no register of shareholdings and no restrictions to transfers of unit holdings, transfers being effected by the delivery of the relevant unit certificate. Unit certificates embody both the share certificate in respect of Compagnie Financière Richemont SA and the related participation certificate in respect of Richemont SA. Given this indivisible twinning of shares in Compagnie Financière Richemont SA with participation certificates issued by Richemont SA, Luxembourg, which is embodied in the statutes of both companies, transfers of shares cannot be effected without the corresponding transfer of the related participation certificate.

Transfers of the unlisted 'B' registered shares in Compagnie Financière Richemont SA, which are held solely by Compagnie Financière Rupert, must be approved by the Board of Directors of the Company.

3. BOARD OF DIRECTORS

Responsibilities and membership

The Board of Directors of Compagnie Financière Richemont SA, the parent company, is responsible for the overall strategic direction of the Group and the appointment of senior management. In addition, it is responsible for establishing financial controls and appropriate procedures for the management of risk within the Group as well as the overall supervision of the business. The Board is responsible for the preparation of the financial statements of the Company and of the Group and for the organisation of the annual meeting of shareholders.

The Board is composed principally of non-executive directors with diverse professional and business backgrounds. Seven nationalities are represented on the Board, which is composed of 11 members. Board members are elected at each year's annual general meeting for a term of one year.

In terms of its regular business, the Board meets generally for half a day, at least five times per annum. Further meetings on specific topics are held on an ad hoc basis. The Board also meets with executive management for two days each year to review the strategic direction of the Group's businesses. The Executive Chairman and the Group Finance Director establish agendas for meetings of the Board, financial reports and supporting information in respect of agenda items being circulated to members of the Board in advance of each meeting. Directors may ask that an item be placed on the agenda for any meeting. Biographies of Board members are shown on pages 22 and 23.

Board Committees

In terms of the Group's framework of corporate governance, the Board of Compagnie Financière Richemont SA has established an Audit Committee, a Compensation Committee and a Nominations Committee. The composition of these Committees is indicated in the biographical notes on Board members set out below. No corporate governance committees have been established by the Board of Richemont SA, Luxembourg, given its role as the Group's management board.

Audit Committee

The four members of the Audit Committee are non-executive directors. The Group Finance Director attends all meetings, as do the Head of Risk Management and Internal Audit and representatives of PricewaterhouseCoopers SA, the

Group's external auditors. Meetings of the Committee are held at least three times per annum. The Committee meets in camera with the external auditors during the course of each meeting. The Audit Committee's principal tasks are to:

- satisfy itself that the consolidated financial statements follow approved accounting principles and give a true and fair view of the Group's financial position and results;
- recommend to the Board the appointment, reappointment or dismissal of the external auditors and keep under review their independence and objectivity as well as their level of remuneration;
- examine and review with both external and internal auditors the adequacy and effectiveness of the Group's management information systems as well as accounting, financial and operational controls;
- oversee the effectiveness of the Group's Internal Audit function and to liaise with the Head of Risk Management and Internal Audit on all matters of significance arising from the department's work;
- examine and review the adequacy, effectiveness and integrity of the processes to assure the Group's compliance with all applicable laws and regulations; and
- ensure compliance with the Group's Code of Conduct for securities dealings and internal Commitment Approval Procedures.

Compensation Committee

The Compensation Committee is comprised of two non-executive directors and the Executive Chairman. To assist it in its deliberations it may draw on support from the Group's internal specialists and external advisors. Meetings of the Committee are held as necessary but at least twice per annum.

The function of the Committee is to establish a framework for determining the remuneration of Group executives and to establish the remuneration to be paid to non-executive directors and key executive directors.

The Committee also approves awards to the senior management group in terms of the Group's long-term, equity-based incentive schemes.

Nominations Committee

The Nominations Committee consists of the non-executive directors meeting under the chairmanship of the Executive Chairman.

The principal functions of the Committee are to advise the Board of Compagnie Financière Richemont SA in areas such as the composition and size of the Board and the criteria to be applied in the selection of new members of the Board and management.

In addition, the Committee is responsible for the nomination of directors to serve on board committees and the management board.

Management contracts

There are no contracts between the Group and any third parties for the management of any Group company.

BOARD OF DIRECTORS OF COMPAGNIE FINANCIÈRE RICHEMONT SA

Johann Rupert
Executive Chairman

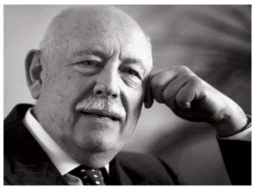
South African, age 53
Appointed to the board 1988

Mr Rupert studied Economics and Company Law at the University of Stellenbosch, South Africa and has had an extensive career in international business and finance. He has served on the boards of Rothmans International and British American Tobacco and was Executive Chairman of Rand Merchant Bank. He became Group Chief Executive of Richemont on its formation in 1988 and assumed the role of Executive Chairman in September 2002. He is non-executive Chairman of Remgro Limited and of VenFin Limited. Mr Rupert is Chairman of the Nominations Committee and is a member of the Compensation Committee.

Jean-Paul Aeschimann
Non-executive Deputy Chairman

Swiss, age 69
Appointed to the board 1988

Maître Aeschimann graduated in law from the University of Neuchâtel, studied at Harvard University and has been admitted to the Bar of Geneva. He is a practising lawyer and is a senior partner of Lenz & Staehelin, based in Geneva. He serves on the board of Barclays Bank (Suisse) S.A., Reuters S.A., British American Tobacco (Switzerland) S.A. and a number of Swiss subsidiaries of Total and is a member of the committee appointed to reform the Swiss Federal Investment Fund Act. Lenz & Staehelin acts as legal counsel to Richemont and to Compagnie Financière Rupert and Maître Aeschimann is the Special Auditor of Compagnie Financière Rupert. Maître Aeschimann is Chairman of the Audit Committee and is a member of the Compensation Committee and the Nominations Committee.



Franco Cologni
Senior Executive Director

Italian, age 68
Appointed to the board 2002

Dr Cologni is a graduate of the University of Milan, where he later became professor of theatre history and communication. As a writer, he has published several books and articles on these topics and on luxury goods companies, writing principally on jewellery and watches. He joined Cartier in 1969 and served as Managing Director and Chairman of Cartier International. Dr Cologni has also been closely involved with the Group's watch brands and serves as Chairman of the Supervisory Board of the Comité Internationale de la Haute Horlogerie and of the Association Interprofessionnelle de la Haute Horlogerie. He is Chairman of the Strategic Product and Communication Committee of Richemont.

Jan du Plessis
Group Finance Director

South African and British, age 49
Appointed to the board 1988

Mr du Plessis obtained degrees in Commerce and Law from the University of Stellenbosch in South Africa and is a South African Chartered Accountant. He has been Group Finance Director of Richemont since its formation in 1988. He served as Finance Director of Rothmans International from 1990 to 1996, during which time that company was a subsidiary of Richemont. He is currently a member of the Board of Directors of British American Tobacco.

Leo Deschuyteneer
Non-executive director

Belgian, age 72
Appointed to the board 1998

Mr Deschuyteneer is a graduate in economics and holds a doctorate in law from the University of Brussels. He was a Fullbright scholar and holds an MBA from Temple University of Philadelphia. He has participated in the Advanced Management Program at INSEAD. He is an executive director of Sofina SA, a Belgian investment company which is an investor in Richemont. He has been involved with Richemont's luxury goods businesses for a number of years, having served as a director of Vendôme Luxury Group. He is also a director of various European companies, including Sidro, Sofindev, Colruyt, Cerepfi and Mecaniver and is a member of the Executive Committee of the Belgian National Theatre. Mr Deschuyteneer is a member of the Audit Committee and the Nominations Committee.

Lord Douro
Non-executive director

British, age 57
Appointed to the board 2000

Lord Douro holds an MA degree from Oxford University. He has broad experience in banking and finance and served previously as Chairman of Dunhill Holdings and as Deputy Chairman of Vendôme Luxury Group, which were subsidiaries of the Group. He was a member of the European Parliament from 1979 to 1989 and was Chairman of Sun Life and Provincial Holdings from 1995 to 2000. He is currently Chairman of the Framlington Group and is a director of Sanofi-Synthelabo and of Pernod Ricard. Lord Douro is a member of the Nominations Committee.

Yves-André Istel
Non-executive director

American, age 67
Appointed to the board 1990

Mr Istel graduated in economics from Princeton University and has an extensive career in investment banking. He was Managing Director and member of the Board of Lehman Brothers Kuhn Loeb from 1977 to 1983; Co-Chairman of First Boston International from 1983 to 1988; Chairman of Wasserstein Perella & Co. International from 1988 to 1992 and Vice Chairman of Rothschild Inc from 1992 to 2002. He is currently Senior Advisor to Rothschild Inc, a member of its Investment Banking Committee, and a member of the board of Rothschild & Cie Banque. He is a director of the boards of Imperial Sugar Company, Valeo S.A., The Chalone Wine Group Ltd., and GenuOne Inc. In addition, he is Chairman of the advisory board of the Remarque Institute, New York University; the Center for French Civilisation and Culture, New York University; The European Institute and the Fondation Saint-John Perse, as well as being a member of the boards of the French-American Foundation, the Council on Foreign Relations and Action Against Hunger, USA. Mr Istel is a member of the Audit Committee and the Nominations Committee.

Joseph Kanoui
Non-executive director

Swiss, age 66
Appointed to the board 1988

Mr Kanoui is a graduate of the Institut de Contrôle de Gestion à Paris, and of the Institut d'Etudes Politiques and of l'Ecole Supérieure de Commerce d'Alger. After a career in international finance, he was appointed Chairman of Cartier Inc, New York in 1976 and was instrumental in regrouping the various Cartier entities within Cartier Monde SA in 1979, serving as Chairman of that company up until the formation of Vendôme Luxury Group in 1993. He was Executive Chairman of Vendôme Luxury Group, a Richemont subsidiary which encompassed the Group's luxury goods businesses, from 1993 to 1998 and Managing Director of Richemont SA, Luxembourg from 1988 to 2000. He has served on the boards of Rothmans International and Banque Privée Edmond de Rothschild SA, was Vice Chairman of Banque BNP- Paribas (Suisse) SA and was a member of the Advisory Board of Banque Pictet & Cie Luxury Fund. Mr Kanoui is Chairman of the Compensation Committee and is a member of the Nominations Committee.

Alan Quasha
Non-executive director

American, age 53
Appointed to the board 2000

Mr Quasha is a graduate of Harvard College, Harvard Business School, Harvard Law School and New York University Law School. After practising law he moved into commerce and is now President of Quadrant Management Inc, an investment management business based in New York. He served as a director of Richemont SA, Luxembourg from 1988 up until the time he joined the board of Compagnie Financière Richemont SA and was Chief Executive Officer of North American Resources Limited, a joint venture between Richemont and the Quasha family, between 1988 and 1998. He is a director of American Express Funds, is a past governor of the American Stock Exchange, is Chairman of the Visiting Committee of Harvard University's Weatherhead Centre for International Affairs and is Chairman of the American Brain Trauma Foundation. Mr Quasha is a member of the Nominations Committee.

Lord Renwick of Clifton
Non-executive director

British, age 65
Appointed to the board 1995

Lord Renwick is a graduate of Cambridge University and served in the British diplomatic service, rising to become Ambassador to South Africa from 1987 to 1991 and Ambassador to the United States from 1991 to 1995. He is currently Vice Chairman, Investment Banking, of JPMorgan Europe. He is Chairman of Fluor Limited and a director of BHP Billiton, British Airways, Fluor Corporation, Harmony Gold Mining Co and SABMiller. He is also a trustee of The Economist. Lord Renwick is a member of the Audit Committee and the Nominations Committee.

Ernst Verloop
Non-executive director

Dutch, age 76
Appointed to the board 1998

Mr Verloop holds a degree in law from Utrecht University. He enjoyed a long and successful international career with the Unilever group, rising to become an executive director of Unilever NV and Unilever PLC. He has served on the boards of a number of leading Dutch and international companies, associations and state enterprises and was Chairman of the Unilever-Erasmus University Visiting Professorship in Marketing Foundation. He was Chairman of the Supervisory Board of Rothmans Europe (Nederland) BV and was a director of Rothmans International BV, when those companies were subsidiaries of the Group. He is currently Chairman of the Central Museum Committee of Utrecht. Mr Verloop is a member of the Nominations Committee.

Alan Grieve
company secretary

4. SENIOR MANAGEMENT

The Board of Richemont SA, a directly held, wholly owned subsidiary of Compagnie Financière Richemont SA, functions as the Group's Management Board.

Johann Rupert*
executive chairman

Jan du Plessis*
finance director

Franco Cologni*
senior executive director

Alain Dominique Perrin
Chief Executive Officer

French, age 60
Appointed to the board 2000

Mr Perrin is a graduate of the Ecole des Cadres et des Affaires Economiques, Paris. He joined Cartier in 1969, assuming a series of roles in that organisation and served ultimately as President of Cartier International SA. He has been responsible for the creation of the Fondation Cartier pour l'Art Contemporain in Paris and the launch of the annual Salon Internationale de la Haute Horlogerie. He serves on the management committees of a number of non-profit organisations and is President of the Ecole des Dirigeants et Créateurs d'entreprise (E.D.C.).

Richard Lepeu
Chief Operating Officer

French, age 51
Appointed to the board 2000

Mr Lepeu is a graduate of the Institut d'Etudes Politiques de Paris and the Université de Sciences Economiques de Paris X. He worked in international corporate finance before joining Cartier in 1979 as assistant to the President. Within Cartier, he was appointed Company Secretary in 1981 and became director of Finance and Administration in 1985 before being appointed Chief Executive in 1995. He became Chief Operating Officer of Richemont in 2001 and is responsible for the Group's distribution and shared services infrastructure. He is also a member of the boards of Richemont Japan and Richemont North America.

Callum Barton
Chief Executive of Richemont North America

British, age 53
Appointed to the board 2000

Mr Barton is a graduate of the University of East Anglia and qualified as a Chartered Accountant in 1973. He joined Cartier in 1975 and was Finance Director of Les Must de Cartier before becoming Managing Director of Piaget and Baume & Mercier in 1988. He was Chief Executive of Alfred Dunhill and Operations Director of Richemont before taking up his current position in 2001. He is Chairman of Alfred Dunhill and of Cartier Inc.

Piet Beyers
Executive Director

South African, age 53
Appointed to the board 2000

Mr Beyers holds BComm and LLB degrees from the University of Stellenbosch, South Africa and an MBA from the University of Cape Town. Prior to joining the Group, he had an extensive career in industry and was inter alia Managing Director of Cadbury, South Africa. He is also a director of Remgro Limited, VenFin Limited and Distell Limited.

Henry-John Belmont
Director of Haute Horlogerie

French, age 62
Appointed to the board 2001

Mr Belmont studied engineering at the Ecole Polytechnique in Grenoble, France and holds an MBA from INSEAD at Fontainebleau. He has a background in precision engineering and was Chief Executive of Yema-Matra prior to joining Jaeger-LeCoultre in 1987, where he became Chief Executive. Having overseen the integration of Jaeger-LeCoultre, IWC and A. Lange & Söhne with the Group's other specialist watch brands, he is now responsible for Richemont's overall watch movement manufacturing strategy.

Simon Critchell
Chief Executive of Alfred Dunhill

British, age 57
Appointed to the board 2001

Mr Critchell is a graduate of Kings College, London and holds an MBA from INSEAD. He had a career in sales, marketing and general management before joining the Group in 1990. Prior to assuming his current role in 2001, he was Chief Executive of Richemont North America and of Cartier Inc. He is a member of the board of Richemont North America and serves as a Member of the Corporate Council of the Whitney Museum of Art, New York.

**These directors also serve on the Board of Compagnie Financière Richemont SA. Their biographical details are set out on page 22 of this report.*

Bernard Fornas
Chief Executive of Cartier

French, age 56
Appointed to the board 2002

Mr Fornas graduated from Lyon Business School and holds an MBA from the Kellogg School of Management. He has worked with a number of companies in the consumer products field prior to joining Cartier as International Marketing Director in 1994. He subsequently became Chief Executive of Baume & Mercier and was appointed Chief Executive of Cartier in 2002.

Isabelle Guichot
Chief Executive of Van Cleef & Arpels

French, age 38
Appointed to the board April 2003

Ms Guichot graduated with an MBA from l'Ecole des Hautes Etudes Commerciales, Paris in 1986, joining Cartier International immediately thereafter. She worked in many areas of that company and was appointed Commercial/Sales Director in 1992 before being made Managing Director of Cartier SA in France in 1996 and assuming her current role as Chief Executive of Van Cleef & Arpels in 1999. Ms Guichot also serves on the Comité Vendôme, which represents the interests of businesses based in the Place Vendôme, Paris.

Dominique Jousse
Human Resources Director

French, age 44
Appointed to the board 2000

Ms Jousse is a graduate of the Sorbonne in Economics and Business Management and has a post-graduate qualification in Human Resource Management from the Institut de Gestion Sociale, Paris. She has held a number of senior positions in international human resources, having worked with Citibank, General Electric, LVMH and Andersen Consulting and was International Human Resources Director of Cartier International from 1996 to 1999.

Albert Kaufmann
General Counsel

Swiss, age 55
Appointed to the board 2000

Mr Kaufmann holds a degree from the Faculty of Law of the University of Geneva and has been admitted to the Geneva Bar. He joined Cartier in 1974 to lead its legal department and has since been responsible for the legal affairs of the Group's luxury goods companies. He was a member of the board of Cartier International and was a director of Vendôme Luxury Group. He was appointed as Group General Counsel in 1999. Mr Kaufmann is a member of the board of the Swiss Watch Federation.

Eloy Michotte
Corporate Finance Director

Belgian, age 55
Appointed to the board 1988

Mr Michotte graduated in engineering from the University of Louvain in Belgium and holds an MBA from the University of Chicago. He has had an extensive career in international business and finance, having worked with Ford, McKinsey & Co and Bankers Trust Company prior to joining Richemont at the time of its formation in 1988. As Head of Corporate Finance, he has responsibility for mergers and acquisitions and serves on the boards of a number of companies in which the Group has an interest.

Frederick Mostert
Chief Intellectual Property Counsel

South African, age 43
Appointed to the board 1994

Dr Mostert holds a masters degree from Columbia University School of Law in New York City and a doctorate from RAU in Johannesburg. He is a member of the New York Bar and has practised corporate law at Shearman and Sterling and international intellectual property law at Fross, Zelnick, Lehrman and Zissu in New York. He joined Richemont in 1990. He is Honorary Chairman of the International Trademark Association, serves on the Advisory Board of the McCarthy Center for Intellectual Property and Technology Law and is Vice Chairman of GenuOne, Inc.

Norbert Platt
Chief Executive of Montblanc

German, age 56
Appointed to the board 2000

Mr Platt graduated with a BSc in Precision Mechanical Engineering from the University of Frankfurt/Main and has studied business and management topics at Harvard Business School and at INSEAD. He worked for a number of years in the field of precision instruments, working with Rollei in Germany and internationally, becoming CEO of Rollei Singapore and Managing Director of Rollei Fototechnic in Germany. He joined Montblanc in 1987 and is President and CEO of Montblanc International.

Jan Rupert
Manufacturing Director

South African, age 47
Appointed to the board 2000

Mr Rupert is a graduate in Mechanical Engineering from Stellenbosch University and has had an extensive career in production management in the tobacco and watchmaking industries. He was Manufacturing Director of Rothmans International and assumed his current role with the Group in 1999, in which capacity he has overall responsibility for the Group's manufacturing strategy.

The Board of Richemont SA typically meets formally five times per annum, for half a day to a day. It is composed of the Executive Chairman, the Chief Executive Officer, the Group Finance Director and the Chief Operating Officer together with the Chief Executive Officers of the Group's leading business units as well as regional and functional heads. In total there are 17 members, three of whom also served on the Board of Compagnie Financière Richemont SA during the year under review. Appointments to the management board are made by the Board of Compagnie Financière Richemont SA upon the recommendation of the Nominations Committee under the chairmanship of the Executive Chairman.

The executive management is charged by the Board of Directors of Compagnie Financière Richemont SA with implementing the strategic policies determined by the Board. It is empowered to conduct the day-to-day strategic and operational management including, inter alia, the financial management of the Group. It is responsible for the management of the Group's underlying businesses and investments, subject at all times to an obligation to provide adequate information on the development of those businesses to the Board.

5. COMPENSATION, UNITHOLDINGS AND LOANS

Compensation policy

The Group's compensation policies are designed to ensure that Group companies may attract and retain management talent, recognising the international nature of its businesses. The Group sets high standards in the selection of executives, recognising their importance to the long-term development of the business.

In addition to a basic salary, executives may receive short-term performance-related bonuses and will generally be eligible to participate in the Group's stock option plan. Details of the Group's stock option plan are set out below. The Group does not operate any schemes to issue shares or units to executives as part of their remuneration package.

The Compensation Committee of the Board of Compagnie Financière Richemont SA is responsible for determining the remuneration of the members of the Board of Directors, the Executive Chairman and members of the senior management.

Non-executive directors typically receive an annual fee for their services. They are not eligible for performance related payments and do not receive awards under the Group's stock option plan.

In all cases, information presented below in respect of any individual or group of individuals includes amounts paid to parties closely linked to them, unless otherwise indicated.

Compensation to executive directors and senior management

The total level of compensation paid to executive directors of Compagnie Financière Richemont SA and members of the Board of Richemont SA, the management board, including pension contributions, benefits in kinds and all other aspects of remuneration but excluding the value of awards under the Group's stock option plan, amounted to € 23 931 000. In addition, an amount of € 3 100 000 was paid as an agreed terminal bonus to an executive director who left the Group during the year.

Compensation to non-executive directors

Total fees and other remuneration paid to non-executive directors during the year amounted to € 1 111 000. This includes fees amounting to € 82 000 paid to a non-executive director who retired during the year. The figure also includes fees of € 688 000 paid to two non-executive directors. In one case, these are paid for consultancy and advisory services and, in the other, as remuneration to a former executive director.

Additional fees and remuneration

In addition to fees paid in respect of board membership, one non-executive member of the board is a partner in a professional firm which received fees totalling € 1 357 000 from Group companies during the year under review for advice on legal and taxation matters. This figure includes € 1 081 000 in respect of fees paid for advice on a specific restructuring project.

Compensation to former directors or senior management
No such payments were made during the year under review.

Allotment of units
No units were allotted to directors or members of the management board during the year under review.

Unit ownership
As at 31 March 2003, non-executive directors and parties closely linked to them owned a total of 39 800 Richemont 'A' units. Executive directors and members of the management board and parties closely linked to them held a total of 344 131 Richemont 'A' units at that date. As noted above, Mr Johann Rupert is the general partner of Compagnie Financière Rupert, which holds the 52 200 000 'B' registered units in the Group.

Stock option plan
In 1999 the Group implemented three long-term unit-based compensation schemes for executives; an option scheme where executives were awarded options to acquire units at a predetermined price, a phantom option scheme where executives received a cash bonus based on the appreciation of the unit price over a given period of time and a unit purchase scheme where executives purchased units subject to certain restrictions (hereinafter collectively referred to as "unit-based compensation schemes"). The scheme in which executives were invited to participate was dependent on their country of residence. In terms of the rules of the unit purchase scheme, beneficiaries could elect to receive a scheme loan from the Group to fund the purchase of the units. The scheme loan was interest bearing and was intended to be repayable out of the proceeds of the sale of the units. The benefits under all three schemes typically vested over periods of three to five years.

The prevailing economic climate and the state of the world's equity markets over the last year have resulted in the exercise prices of the majority of the awards granted under the schemes being substantially above the market price of Richemont units. Furthermore, beneficiaries under the unit purchase scheme were exposed to capital losses by virtue of the fact that the amount of the scheme loans they assumed to purchase units substantially exceeded the market value of those units. Consequently, the unit-based compensation scheme was no longer the motivational and retentive tool that was envisaged at the time of grant and the Group needed to take action to motivate and retain its executives.

The increased level of interest in the use of stock options as a form of compensation will no doubt facilitate the implementation by the International Accounting Standards Board of the proposed International Financial Reporting Standard on Share-Based Payments. These proposals, if implemented, will effectively lead to the cost of all stock options being charged to the profit and loss account. Given the structure of the Group's unit-based compensation schemes described above, the implementation of this proposed standard as currently drafted would have required all outstanding awards to be re-valued to fair value at each reporting date using Black Scholes or another, similar option pricing model. At each reporting date, any increase or decrease in the fair value of outstanding awards would have been reflected in the profit and loss account, leading to highly volatile and uncontrollable swings in reported earnings.

Richemont agrees with the principle that stock options form part of compensation and that the issue of new shares to meet the obligations under stock option plans results in unfavourable dilution. It was for this reason that Richemont launched and implemented a series of buy-back programmes, commencing in 1999, to acquire treasury units to meet the obligations under its unit-based compensation schemes. By using its own capital to acquire these units, Richemont had effectively always reflected the cost of the unit-based compensation schemes in the profit and loss account by way of a financing charge.

In order to address the above concerns, the Compensation Committee resolved (subject to certain exceptions) to unwind the three schemes described above. Accordingly, executives were offered the opportunity to convert all the outstanding awards into "classic" stock options (the right to purchase Richemont 'A' units at a fixed price at some point in the future) issued in terms of a new global stock option plan. The use of "classic" stock options would enable the Group to better manage the cost of stock options once these fall to be charged to the profit and loss account following the envisaged adoption of the proposed new accounting standard in the March 2005 financial year.

With the exception of certain options granted under the option scheme in the financial year ended 31 March 2000, the majority of the awards previously granted were replaced with stock options. Typically options granted under the historical schemes at SFr 24.25 were replaced on a one-for-one basis with stock options exercisable at SFr 24.25, whereas awards previously granted at prices ranging from SFr 38.00 to SFr 42.00 were replaced by granting one stock option for every two awards previously held, also at an exercise price of SFr 24.25.

In addition to the grant of such replacement options at SFr 24.25 the Compensation Committee also granted further options exercisable at SFr 20.00 per option.

Further details of these changes are disclosed in note 25 to the Consolidated Financial Statements.

No awards under the stock option plan have been made to non-executive directors.

Details of options held by executive directors and members of the management board under the plan at 31 March 2003 are as follows:

Granted during the year ended 31 March	Exercise price SFr	Expiry dates	Number of options
2000	24.25	2009	600 000
2003	24.25	2009	5 959 000
	24.25	2011	207 750
	24.25	2012	381 500
	20.00	2012	3 401 000
Total			10 549 250

Each option entitles the executive to purchase one Richemont 'A' unit.

Loans

As at 31 March 2003, loans totalling € 2 928 000 were outstanding to four members of the management board. The loans are denominated in Swiss francs, US dollars and euros and carry interest rates of between 3 and 4 per cent. They are repayable over periods of up to five years.

Highest total compensation

The total level of remuneration paid to the highest paid director, including pension contributions, benefits in kind and all other aspects of remuneration but excluding the value of awards under the Group's stock option plan, amounted to € 4 357 000. In addition, that director received options entitling him to acquire 2 850 000 Richemont 'A' units. These options are exercisable over the coming nine years at an average exercise price of SFr 21.50.

6. SHAREHOLDER PARTICIPATION RIGHTS

Details of shareholder voting rights and the right to attend meetings of shareholders and participation certificate holders are given above in section 2, 'Capital Structure'.

7. CHANGE OF CONTROL AND DEFENCE MECHANISMS

In terms of the Swiss Stock Exchange and Securities Trading Act ('SESTA'), Compagnie Financière Richemont SA has not elected to 'opt out' or 'opt up' in terms of the provisions relating to the obligations for an acquirer of a significant shareholding to make a compulsory offer to all unitholders. In accordance with the law, any party which would directly or indirectly or acting in concert with third parties acquire more than 33⅓ per cent of the voting rights of the Company would therefore be obliged to make an offer to acquire all of the listed equity securities of the Company. The interest of Compagnie Financière Rupert in 100 per cent of the 'B' registered shares in the Company, which existed at the date SESTA came into force, does not trigger any obligation in this respect. As noted above, Compagnie

Financière Rupert controls 50 per cent of the voting rights at the level of Compagnie Financière Richemont SA.

No specific provisions exist in the statutes or internal regulations of the Company, which would seek to limit or block any takeover bid. No special contractual relationships exist between Group companies and directors or members of management, which would protect management or act as a deterrent to a change of control of the Company.

The rules of the stock option plan for executives in the Group contain specific provisions in respect of a change of control of the Group, which are typical in terms of such schemes and would result in the early vesting of benefits due to participants in the event of a change of control taking place.

8. AUDITORS

The external auditors report to the Board of Compagnie Financière Richemont SA through the Audit Committee, which also supervises the Group's relationship with the external auditors.

PricewaterhouseCoopers SA have been appointed by the shareholders of Compagnie Financière Richemont SA at the 2002 annual general meeting as the auditors of the financial statements of the Company and of the consolidated financial statements of the Group. They were appointed for a period of one year and, being eligible, will stand for a further period of office of one year at this year's annual general meeting. PricewaterhouseCoopers (formerly Coopers & Lybrand) were initially appointed as auditors of Compagnie Financière Richemont SA and the Group in 1993. Mr Martin Aked, the lead auditor, assumed that role in October 2001.

Total fees paid or payable to PricewaterhouseCoopers for the audit of the financial statements of the Company and the Group and related services were € 6.1 million in respect of the financial year ended 31 March 2003. Fees paid or payable in respect of the financial year to PricewaterhouseCoopers for non-audit related services amounted to € 4.5 million.

Representatives of PricewaterhouseCoopers attended all meetings of the Audit Committee held during the financial year as well as the meeting of the Committee held on 3 June 2003 at which the financial statements were reviewed. For further information on the role of the Audit Committee, please refer to section 3 above.

9. INFORMATION POLICY

The annual report is the principal source of financial and business information for unitholders. The Group's preliminary announcement of the results for the financial year is generally issued in June each year. In addition to the annual report, Richemont publishes, in November each year, an interim report on the first six months trading period. Announcements as to current trading performance are typically made at the annual general meeting and, in respect of the pre-Christmas period, in January each year. Ad hoc news announcements are made in respect of matters which the Board considers to be of significance to unitholders, in accordance with the guidelines laid down by the Swiss Exchange.

The annual and interim reports are distributed to all parties who have asked to be placed on the Group's mailing list and to registered holders of South African Depository Receipts.

All news announcements other than the annual and interim reports are distributed by fax and e-mail. Unitholders and other interested parties may ask to be included on the distribution list by contacting the Company Secretary at the Company's registered office or by e-mail (secretariat@richemont.com) or by registering on the Group's website (www.richemont.com).

Copies of the annual and interim reports, the preliminary announcement and ad hoc press releases may also be downloaded from the Richemont website. Copies of the statutes of both Compagnie Financière Richemont SA and Richemont SA, Luxembourg are also available on the website.

Statutory and regulatory announcements are published in the Swiss Official Gazette of Commerce ('SHAB').

FINANCIAL REVIEW

OVERVIEW

The Group's results for the year ended 31 March 2003 were influenced by difficult trading conditions.

	2003 € m	2002 € m	
Sales	**3 651**	3 860	– 5%
Cost of sales	(1 367)	(1 382)	
Gross margin	**2 284**	2 478	– 8%
Net operating expenses	(1 934)	(1 966)	
Operating profit before restructuring and impairment charges	**350**	512	– 32%
Restructuring and impairment charges	(91)	(30)	
Operating profit	**259**	482	– 46%

In accordance with the style of presentation used in previous years and for ease of comparability, these results are presented on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items from both years.

The Group's sales declined by 5 per cent to € 3 651 million. This reflects underlying sales in line with the prior year, the decline being wholly attributable to the impact of the strengthening of the euro, in particular against the dollar and the yen.

The gross margin percentage declined from 64.2 per cent to 62.6 per cent, reflecting the higher costs of production, as capacity utilisation fell below optimum levels, together with the adverse currency impact, given the predominantly euro and Swiss franc cost base of the Group.

Notwithstanding a reduction in net operating expenses of 2 per cent, operating profit before restructuring and impairment charges declined by 32 per cent to € 350 million for the year under review.

During the year, Alfred Dunhill reappraised its sales strategy in the United States and the decision has been taken to focus on the wholesale business in that market, working with strong local partners. The Fifth Avenue store in New York will continue to act as a flagship for the brand in North America but all other stores in the United States will be closed. Lancel also took steps during the year to close down loss-making activities within the United States and Belgium and to streamline its operations and eliminate overheads. Provisions for the restructuring of these two businesses' activities amounting to € 52 million have been made during the year under review. Further provisions of € 39 million have been made in respect of measures to restructure the Group's manufacturing operations and the termination of certain lease commitments.

ANALYSIS OF SALES AND PROFITABILITY BY BUSINESS AREA

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

	2003 € m	2002 € m	
Sales			
Jewellery maisons	1 994	2 179	– 8%
Specialist watchmakers	808	806	
Writing instrument manufacturers	394	380	+ 4%
Textile, leather and other businesses	455	495	– 8%
	3 651	3 860	– 5%
Operating result before restructuring and impairment charges			
Jewellery maisons	439	551	– 20%
Specialist watchmakers	82	127	– 35%
Writing instrument manufacturers	68	71	– 4%
Textile, leather and other businesses	(71)	(67)	+ 6%
	518	682	– 24%
Unallocated costs	(168)	(170)	– 1%
Operating profit before restructuring and impairment charges	350	512	– 32%

This analysis presents the results of the Group's operations in four business segments. In each case, those maisons which are principally engaged in a specific business area have been grouped together.

Accordingly, those businesses which have a heritage as producers of high jewellery and jewellery watches – Cartier and Van Cleef & Arpels – are grouped together as jewellery maisons. All their product ranges, including watches, writing instruments and leather goods, are reflected in the sales and operating results for that segment.

In terms of the jewellery maisons, sales declined by 8 per cent, mirroring the decrease in sales at Cartier, the Group's largest business. This was largely due to the weakness of the dollar and yen against the euro during the year under review, whereas Van Cleef & Arpels' sales for the year grew, in part as a consequence of the acquisition of its Japanese distributor. During the year Cartier launched relatively few new jewellery products, although its *Le Baiser du Dragon* jewellery collection has been well received. Cartier watch sales include the launch of *Divan* and a full year effect of the launch of the *Roadster* at the end of the previous financial year. Generally, sales of precious metal and jewellery watches were more resilient than steel and gold ranges.

The Group's specialist watchmakers, Jaeger-LeCoultre, Piaget, Baume & Mercier, IWC, Vacheron Constantin, A. Lange & Söhne and Officine Panerai have, equally, been grouped together for the purposes of this analysis. This business segment reported sales in line with the prior year. Sales for the year benefited from the further integration of Jaeger-LeCoultre, IWC and A. Lange & Söhne, where virtually all of the third-party distributorships have now been terminated and wholesale distribution brought in-house.

Richemont's writing instruments manufacturers, represented by Montblanc and Montegrappa, reported growth of 4 per cent in sales for the year. This was largely attributable to the further expansion of Montblanc's retail distribution network combined with the success of its leather goods and watch ranges, which now account for 25 per cent of the brand's sales.

Richemont's other businesses, which include Alfred Dunhill, Lancel, Chloé and Hackett, are grouped under the heading of textile, leather and other businesses. Sales in this business area declined by 8 per cent. Although Chloé and Hackett showed good growth in sales during the year, their performances were overshadowed by losses at Alfred Dunhill and Lancel. Both brands suffered from the very difficult trading environment seen during the year.

The operating result before unallocated costs and restructuring charges totalled € 518 million, a decline of 24 per cent compared to the prior year. Unallocated costs represent the costs of general management, marketing support and related central marketing initiatives as well as all central services. Central services include, for example, the IT, legal, intellectual property and finance functions of the Group.

SALES BY REGION

Regional sales were influenced by the global economic malaise and negative movements in exchanges rates.

	2003 € m	2002 € m	
Europe	1 558	1 710	– 9%
Asia	1 400	1 454	– 4%
Japan	705	744	– 5%
Asia Pacific	695	710	– 2%
Americas	693	696	
	3 651	3 860	– 5%

Europe, the Group's most important geographic region showed a decline in sales of 9 per cent for the year, reflecting the depressed economic environment and a marked reduction in tourism. Sales in France and Italy declined by 5 per cent and 6 per cent respectively, whilst the German market suffered a decline of 16 per cent.

Sales in Japan increased by 4 per cent in constant currency terms but were 5 per cent lower on conversion into euros at actual exchange rates. Reported sales in the Asia Pacific region declined by 2 per cent, whilst sales in Hong Kong were 5 per cent higher in constant currency terms but 7 per cent lower at actual rates.

The Americas region showed good underlying sales growth of 12 per cent in constant currency terms. In euro terms, sales were essentially flat.

SALES BY DISTRIBUTION CHANNEL

Retail sales remained constant at 41 per cent of total sales for the year, the 6 per cent reduction mirroring the overall percentage decline in sales.

	2003 € m	2002 € m	
Retail	1 496	1 590	– 6%
Wholesale	2 155	2 270	– 5%
	3 651	3 860	– 5%

The Group's network of owned stores grew by 18 during the year to 538 outlets. Van Cleef & Arpels opened five new stores during the year. Montblanc opened seven new boutiques and Alfred Dunhill's owned network grew by two stores, after allowing for the closure of its stores in the United States. Lancel, in contrast, closed 16 of its own stores, mainly in the United States and Belgium.

Montblanc opened five new boutiques in conjunction with franchise partners and Lancel's partners opened 22 new boutiques worldwide. Overall the number of boutiques operated together with franchise partners increased to 363 stores by year-end.

Retail network (number of points of sale)	Owned	Franchised	Total
Cartier	157	55	212
Van Cleef & Arpels	32	6	38
Piaget	19	12	31
Montblanc	127	81	208
Alfred Dunhill	82	103	185
Lancel	69	95	164
Hackett	25	–	25
Other	27	11	38
	538	363	901

SALES BY PRODUCT LINE

The jewellery and watch categories both reported sales declines of 5 per cent.

	2003 € m	2002 € m	
Jewellery	815	860	– 5%
Watches	1 705	1 794	– 5%
Leather goods	270	303	– 11%
Writing instruments	277	285	– 3%
Textile and other	584	618	– 6%
	3 651	3 860	– 5%

The above table analyses sales by product line rather than by business area, as set out previously. Accordingly, the figure in respect of watch sales includes the figures reported not only by the Group's specialist watchmaking businesses but also the two jewellery maisons – Cartier and Van Cleef & Arpels – as well as Alfred Dunhill and Montblanc. Similarly, sales of writing instruments in the table above reflects sales of those product lines by Cartier and Alfred Dunhill as well as Montblanc and Montegrappa.

Profit and loss account

The net profit of the Group on an adjusted basis declined by 22 per cent.

	2003 € m	2002 € m
Operating profit	259	482
Net investment expense	(56)	(46)
Profit before taxation	203	436
Taxation	(50)	(107)
Profit after taxation	153	329
Minority interests	3	2
Net profit of the parent and its subsidiaries	156	331
Share of results of associated undertaking	486	495
Net profit of the Group	642	826

The summary profit and loss account set out above is presented on an adjusted basis, excluding the effects of goodwill amortisation and exceptional items from the results of both years.

Net investment expense includes provisions of some € 20 million to write down unlisted investments to the prevailing valuation as at 31 March 2003. Following the reclassification of the British American Tobacco preference shares, income of € 9 million has been included within the net investment expense caption in terms of the adjustment to the present value of those shares.

The average exchange rates applied to translate the results of Group companies into the euro for the current and previous year are as follows:

	2003	2002
United States dollar	0.99	0.88
Japanese yen	121.03	110.64
Swiss franc	1.47	1.50
Sterling	0.64	0.62

ACCOUNTING FOR ASSOCIATED UNDERTAKING

The Group's share of the results of British American Tobacco declined by € 9 million.

For the year under review the Group's share of the results of British American Tobacco decreased by 2 per cent to € 486 million.

Whereas the results for the comparative period reflected the Group's 21.0 per cent share of British American Tobacco for the full year, in the current year the results include a 21.0 per cent share for the nine months to 31 December 2002 and three months at 18.6 per cent, following the issuance of warrants by Richemont's joint venture interest, R&R Holdings SA.

British American Tobacco had shipments of 777 billion cigarettes in 2002, representing a global market share of 14.6 per cent. It has a robust position in all regions worldwide which, together with the broad based portfolio of international, regional and local brands, provides the platform for achieving global leadership of the tobacco business. Growth in profit is achieved by a continuous focus on increasing its share in the key growth consumer segments of international and premium priced brands.

For British American Tobacco the most encouraging aspect of the results for the year was the impressive growth in their global drive brands. Dunhill, Kent, Lucky Strike and Pall Mall grew by 8 per cent between them. Dunhill in particular performed well with sales exceeding 30 billion cigarettes for the first time. Although Lucky Strike declined in 2002 as a result of the planned reduction in duty-free sales, the brand should return to growth in 2003 whilst Dunhill, Kent and Pall Mall should maintain their progress.

Within British American Tobacco's regions, America-Pacific's operating profit was in line with the prior year, reflecting the net effect of a good performance from all its regional markets offset by adverse exchange rate movements. Asia-Pacific, along with the Africa and Middle East regions suffered from the planned reduction in duty-free sales with profits down £ 46 million and £ 50 million, respectively. Latin America performed well given the exceptionally difficult economic circumstances and political uncertainty in many countries during the year with profits down £ 35 million, reflecting lower volumes and a significant weakening of the region's major currencies against sterling. Europe's operating profit was £ 42 million higher as a result of solid market performances in Russia, Ukraine, Poland, Hungary, France and Switzerland. This was despite a significant loss of profit from the dissolution of the UK partnership, a price war in Romania and excise tax increases in Germany.

In the year to 31 December 2002, British American Tobacco's adjusted earnings per share, arguably the best measure of the company's underlying performance, grew by 8 per cent as a result of lower net interest expense, an improved tax position and lower minority charges. These results were achieved despite a 3 per cent decline in operating profit caused by the impact of weak currencies and the planned decline in duty-free sales, but at comparable rates of exchange operating profits were up by 3 per cent.

Richemont has received dividends totalling € 258 million from British American Tobacco in the year under review.

In line with the practice adopted in previous years, Richemont adjusts the reported results of British American Tobacco to take account of its December financial year-end and the differences in accounting policies applied by the two companies. The table below sets out the adjustments made to British American Tobacco's reported results for their inclusion in Richemont's financial statements:

	2003 £ m
Attributable profit as reported by BAT for the year ended 31 December 2002	1 152
Less: attributable profit as reported by BAT for the quarter ended 31 March 2002	(229)
Add: attributable profit as reported by BAT for the quarter ended 31 March 2003	235
Adjustments:	
– to eliminate goodwill amortisation	380
– adjustment for present value of BAT preference shares	(10)
Adjusted attributable profit of BAT	1 528
Richemont's 21.0% share of attributable profit of BAT for the period 1 April 2002 to 31 December 2002	253
Richemont's 18.6% share of attributable profit of BAT for the period 1 January 2003 to 31 March 2003	60
Richemont's share of BAT's adjusted attributable profit	313
	€ m
Converted at the average €/£ rate of 0.6429 for the year	486

BALANCE SHEET

Unitholders' funds increased by € 147 million to € 4 992 million at 31 March 2003.

	2003 € m	2002 restated € m
Long-term assets		
Property, plant and equipment	735	854
Intangible assets	66	49
Investment in associated undertaking – BAT	2 590	3 198
Carrying value excluding goodwill	581	638
Goodwill	2 009	2 560
Other long-term assets	1 128	470
BAT preference shares	810	–
Other	318	470
	4 519	4 571
Net working capital	1 851	1 956
Net operating assets	6 370	6 527
Net borrowings	(1 177)	(1 456)
Cash, cash equivalents and short-term borrowings	(744)	(723)
Long-term borrowings	(433)	(733)
Other long-term liabilities	(195)	(176)
	4 998	4 895
Equity		
Unitholders' funds	4 992	4 845
Minority interests	6	50
	4 998	4 895

The Group has changed its accounting policy in respect of goodwill. Previously, goodwill was recognised as an intangible asset and amortised through the consolidated profit and loss account on the straight-line basis over its estimated useful life, up to a maximum of 20 years. The Group has decided to change this policy and to offset goodwill arising on the acquisition of subsidiary undertakings against unitholders' funds at the time of acquisition.

Goodwill carried in respect of the Group's investment in its associated company, British American Tobacco, has not been affected by this change but is now presented together with the carrying value of the Group's share of the net assets of British American Tobacco to arrive at the aggregate value of the investment reflected in the consolidated balance sheet. Further details of the change in policy and the effect of the change on the financial statements are presented in note 1 to the consolidated financial statements. The consolidated balance sheet above has been prepared to reflect the new accounting policy for goodwill in both the year under review and in the comparative period.

As noted above, the Group has ceased to equity account for its investment in the preference shares of British American Tobacco. The preference shareholding is now classified as a long-term asset.

CASH FLOW STATEMENT

Cash flow from operating activities increased significantly from € 286 million to € 556 million.

	2003 € m	2002 € m
Operating profit	259	482
Depreciation and other non-cash items	228	179
Decrease/(increase) in working capital	69	(375)
Net cash inflow from operating activities	556	286
Dividends received from associate	258	228
Returns on investments and servicing of finance	(37)	(54)
Taxation paid	(125)	(180)
Net acquisitions of property, plant and equipment	(151)	(301)
Net acquisitions of intangible assets	(29)	(7)
Proceeds from the sale of BAT call warrants	31	–
Proceeds from disposal of other long-term assets	16	14
Acquisition of subsidiary undertakings and minority interests	(106)	(151)
Other acquisitions and investments	(30)	(30)
Net cash inflow/(outflow) before financing activities	383	(195)
Dividends paid to unitholders	(178)	(168)
Buy-back of Richemont units	(31)	(52)
Other financing activities	(289)	73
Exchange rate effects	94	(6)
Decrease in cash, cash equivalents and short-term borrowings	(21)	(348)
Cash and cash equivalents at the beginning of the year	(723)	(375)
Cash and cash equivalents at the end of the year	(744)	(723)

Working capital decreased by € 69 million during the year under review. This reflected management's commitment to improve cash flow, notwithstanding the very difficult trading environment. As a result, despite a significant decline in operating profit, cash inflow from operating activities increased by € 270 million to € 556 million.

Dividends received from British American Tobacco comprise the final dividend in respect of British American Tobacco's financial year ended 31 December 2001 and the interim dividend in respect of its 2002 financial year.

Net acquisitions of intangible assets include the purchase of distribution rights in respect of the Russian market for some € 20 million. The reduction in fixed asset expenditure overall reflects the planned slowdown in the programme together with specific cutbacks in capital expenditure.

The figure in respect of the acquisition of subsidiary undertakings and minority interests principally comprises the acquisition of the remaining 20 per cent interest in Van Cleef & Arpels together with the 10 per cent interest in A. Lange & Söhne previously held by members of the Lange family.

PROFIT AND LOSS ACCOUNT ON A REPORTED BASIS

	2003 € m	2002 restated € m
Operating profit	259	482
Exceptional items	272	–
Profit before net investment expense and taxation	531	482
Net investment expense	(56)	(46)
Profit before taxation	475	436
Taxation	(50)	(107)
Profit after taxation	425	329
Minority interests	3	2
Net profit of the parent and its subsidiaries	428	331
Share of net profit of associate	300	277
Share of net profit on an adjusted basis	486	495
Goodwill amortisation	(186)	(200)
Share of exceptional items reported by associate	–	(18)
Net profit of the Group on a reported basis	728	608
A summary of the effects of goodwill amortisation and exceptional items on unitholders' net profit is shown below:		
Net profit of the Group on a reported basis	728	608
Elimination of goodwill amortisation – associate	186	200
Elimination of exceptional items	(272)	18
Gain arising on BAT preference shares	301	–
Write-down of Hanover Direct preference shares	(29)	–
Share of exceptional items reported by BAT	–	18
Net profit of the Group on an adjusted basis	642	826

Exceptional items

Gain on British American Tobacco preference shares

The exceptional gain of € 301 million (2002: nil) represents the gain arising from the revised accounting treatment in respect of the Group's holding of preference shares in British American Tobacco following the issue of call warrants which have had the effect of locking in the consideration to be received in June 2004 in respect of the shares at £ 6.75 per share. Under the terms of the merger agreement between Richemont, Remgro Limited and British American Tobacco, the redeemable convertible preference shares fall to be redeemed for cash at a fixed price of £ 6.75 per share on 7 June 2004 unless sold through the market prior to that date, in which case the preference shares would automatically convert to ordinary shares in British American Tobacco.

In January 2003 Richemont's joint venture interest, R&R Holdings SA, issued call warrants, listed on the Luxembourg Stock Exchange, that give the holder of each warrant the right to receive from R&R Holdings one ordinary share in

British American Tobacco on 28 May 2004, upon payment of £ 6.75. The issue of the call warrants therefore irrevocably commits R&R Holdings to dispose of the balance of the British American Tobacco preference shares, either as a consequence of the exercise of the warrants or through the redemption of the shares by British American Tobacco.

Reflecting the finite life of the British American Tobacco preference share interest the Group has, with effect from January 2003, accounted for the shares as a debt rather than an equity interest, carrying the shares at the discounted present value of the £ 6.75 receivable in June 2004, together with the present value of estimated dividends receivable thereon. Accordingly the carrying value of these shares has been reclassified to other long-term assets.

Within this category the Group has also recognised the valuation of the conversion rights embedded within these preference shares. The Group's liability under these call warrants, which is equal to the conversion rights embedded in the preference shares and is based on the price at which these warrants were quoted on the Luxembourg Stock Exchange at the balance sheet date, is included in long-term liabilities. The current estimated value of the right to receive future dividends within 12 months after the balance sheet date has been included in debtors and the right to receive future dividends more than 12 months after the balance sheet date is included in other long-term assets.

Write-down of Hanover Direct preference shares

Richemont has sold its remaining interest in Hanover Direct, Inc. to an independent investor group in May 2003 for US$ 40 million. The carrying value of the preference shares has accordingly been written down to this figure in the financial statements as at 31 March 2003.

EARNINGS PER UNIT

	Reported basis 2003 €	Reported basis 2002 restated €	Adjusted basis 2003 €	Adjusted basis 2002 restated €
Earnings per unit				
– basic	1.309	1.089	1.155	1.479
– fully diluted	1.290	1.083	1.141	1.463

Basic earnings per unit on a reported basis is calculated by reference to the weighted average number of units outstanding during the year of 556.0 million units (2002: 558.3 million units) and the net profit of the Group of € 728 million for the year (2002: € 608 million). The number of units outstanding takes into account the effects of the Group's buy-back programme. Fully diluted earnings per unit is calculated by reference to 574.2 million units outstanding (2002: 574.2 million units) and net profit for the year of € 741 million (2002: € 622 million) which reflects the notional additional interest of € 13 million (2002: € 14 million) which would have accrued to the company had the full number of shares been outstanding during the period.

Basic earnings per unit on an adjusted basis is calculated by reference to the weighted average number of units outstanding during the year of 556.0 million units (2002: 558.3 million units), together with the net profit of the Group on an adjusted basis of € 642 million for the year (2002: € 826 million). The number of units outstanding takes into account the effects of the Group's buy-back programme. Fully diluted earnings per unit is calculated by reference to the 574.2 million units outstanding (2002: 574.2 million units) and net profit on an adjusted basis for the year of € 655 million (2002: € 840 million) which reflects the notional additional interest of € 13 million (2002: € 14 million) which would have accrued to the Group had the full number of units been outstanding during the period.

CONSOLIDATED FINANCIAL STATEMENTS
DIRECTORS' REPORT

The Board of Directors of Compagnie Financière Richemont SA ('Richemont' or 'the Company') is pleased to submit its report on the activities of the Company and its subsidiary and associated undertakings (together, 'the Group') for the year ended 31 March 2003. The consolidated financial statements on the following pages set out the financial position of the Group at 31 March 2003 and the results and cash flows of its operations for the year then ended. The financial statements of the Company are presented on pages 70 to 73.

The agenda for the Annual General Meeting, which is to be held in Geneva on 17 September 2003, is set out on page 84.

Further information on the Group's activities during the year under review is given in the Financial Review on pages 30 to 42. A schedule of Principal Group Companies is presented on page 17. These are primarily held through the Company's wholly-owned subsidiary Richemont SA, Luxembourg.

CONSOLIDATED FINANCIAL STATEMENTS
STATEMENT OF ACCOUNTING POLICIES

GENERAL

The financial statements are prepared in accordance with Swiss generally accepted accounting principles as issued by the Foundation for Accounting and Reporting Recommendations in Switzerland ("Swiss GAAP ARR") and comply with Swiss law.

The financial statements of each entity within the Group are measured using the currency that best reflects the economic substance of the underlying events relevant to the entity ("the measurement currency"). The consolidated financial statements are presented in millions of euros, which represents the measurement currency of the Group.

The Group has changed its accounting policy with respect to goodwill arising on the acquisition of subsidiary undertakings. Previously, goodwill was recognised as an intangible asset and amortised through the consolidated profit and loss account on the straight-line basis over its estimated useful life, up to a maximum of 20 years. The Group has now decided to change this policy and to deduct goodwill arising on the acquisition of subsidiary undertakings immediately from unitholders' funds at the time of acquisition. This policy has been applied retrospectively.

The Group considers the new policy to be more appropriate than the old for two principal reasons:

(a) Excluding the goodwill amortisation charge brings the externally reported operating results in line with the Group's internal financial reporting system.

(b) In the context of future compliance with all requirements of International Financial Reporting Standards, consistency between the external and internal financial reporting simplifies the presentation of segmental information. The Group will otherwise be faced with significant practical problems in allocating goodwill to individual segments.

The effect of this change in accounting policy on the results and assets of the Group is detailed in note 1 to the financial statements.

As a consequence of the above-mentioned change in accounting policy, these consolidated financial statements do not comply with International Financial Reporting Standards. However, with the exception of the accounting for goodwill arising on acquisition of subsidiary undertakings, the profit and loss account, balance sheet, the cash flow statement and the statement of changes in equity have been prepared under the valuation principles of International Financial Reporting Standards. It should be noted, however, that the notes to the financial statements do not in all respects conform with the disclosure requirements of International Financial Reporting Standards.

Where necessary, comparative figures have been restated to conform to the revised policy.

(A) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, other than those instances where fair value accounting is applied as disclosed in the accounting policies set out below.

(b) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary undertakings together with the Group's share of the results and retained post-acquisition reserves of associated undertakings.

Subsidiary undertakings are defined as those undertakings which are controlled by the Group. Control of an undertaking most commonly exists when the Company holds, directly or indirectly through other subsidiary undertakings, more than 50 per cent of the ordinary share capital and voting rights of the undertaking. The accounts of subsidiary undertakings are generally drawn up at 31 March of each year. Where audited accounts are not drawn up to this date, the amounts are arrived at by reference to the last audited accounts available. In consolidating the financial statements of subsidiary undertakings, intercompany transactions, balances and unrealised gains are eliminated. Unrealised losses are eliminated unless costs cannot be recovered.

Associated undertakings are defined as those undertakings, not classified as subsidiary undertakings, where the Group is able to exercise a significant influence. Associated undertakings are accounted for under the equity method. The Group's share of the results and attributable net assets of associated undertakings are derived from accounts drawn up at 31 March of each year. Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertaking. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint ventures are enterprises that are jointly controlled by the Group and one or more other parties in accordance with contractual arrangements between the parties. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Group includes its share of the joint ventures' income and expenses, assets and liabilities and cash flows in the relevant components of the financial statements.

The attributable results of subsidiary undertakings, associated undertakings and joint ventures are included in the financial statements from their date of acquisition.

(c) Foreign currencies

Assets and liabilities denominated in foreign currencies, including investments in associated undertakings, are translated into euros at exchange rates prevailing at the balance sheet date. For consolidation purposes, the share capital of the Company is translated from Swiss francs into euros based on the historical rate applicable at the time the Group first adopted the euro as its reporting currency. The earnings of those undertakings in the Group, including associated undertakings, whose accounts are denominated in foreign currencies, are translated into euros at the average exchange rates prevailing during the year. Exchange adjustments arising from the translation of assets and liabilities of subsidiary undertakings and investments in associated undertakings, denominated in foreign currencies, are credited or charged directly to consolidated reserves. Changes in the fair value of a designated foreign currency derivative that qualifies as a hedge of a net investment in a foreign entity are recognised directly in equity (hedging reserve). Other exchange differences, including those arising from currency conversions in the normal course of business, are credited or charged to the profit and loss account for the year.

(d) Revenue recognition

Sales are the amounts receivable by the Company and its subsidiary undertakings from the provision of goods and services to third parties and are stated after deducting value added taxes, duties, other sales taxes and trade discounts. Sales are recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Sales include royalty income earned by the Group, which is recognised on an accruals basis.

(e) Taxation

Provision is made in each accounting period for all taxation expected to be payable in respect of profits earned to the end of the period, including taxation on dividends ordinarily expected to be payable within the Group out of such profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Currently enacted rates are used to determine deferred taxation. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the expected useful lives of the assets. Repairs and maintenance costs are charged to the profit and loss account when incurred.

The costs of property, plant and equipment are depreciated over the expected useful lives of the assets, up to the limits of:

Freehold and leasehold buildings	50 years
Plant and machinery	15 years
Fixtures, fittings, tools and equipment	10 years

Freehold land and assets under construction are not depreciated.

(G) INTANGIBLE ASSETS

Goodwill

Where the consideration paid in respect of the Group's investment in subsidiary and associated undertakings is in excess of the fair value to the Group of the separable net assets acquired, the excess is regarded as goodwill. Goodwill arising from the acquisition of subsidiary undertakings is deducted immediately from unitholders' funds. Goodwill arising from the acquisition of associated undertakings is capitalised within the cost of the investment and is amortised through the profit and loss account on a straight-line basis over its estimated useful life, up to a maximum of 20 years.

Operating lease premiums

Premiums paid at the inception of operating leases for leasehold buildings are capitalised and amortised over their expected useful lives or, if shorter, the lease period.

Software

Costs that are directly associated with developing, implementing or improving identifiable software products having an expected benefit beyond one year are recognised as intangible assets and amortised using the straight-line method over their useful lives, not exceeding a period of five years. Costs associated with evaluating or maintaining computer software are expensed as incurred.

Research, development, patents and trade marks

These expenses are written off in the accounting period in which they are incurred and taken into account in arriving at profit for the year.

(H) LEASES

Assets held under finance leases are capitalised and depreciated over their expected useful lives or, if shorter, the lease period. The liabilities corresponding to remaining capital payments under finance leases are included within current liabilities and long-term borrowings. Rentals payable on assets held under operating leases are charged to the profit and loss account in the accounting period in which the expense arises.

(I) IMPAIRMENT OF LONG-TERM ASSETS

Property, plant and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(J) ADVERTISING AND PROMOTION

These expenses are written off in the accounting period in which they are incurred and taken into account in arriving at profit for the year, except for those costs relating to specific future events which are carried forward to the accounting period in which those events take place.

(K) INVESTMENTS IN ASSOCIATED UNDERTAKINGS

Investments in associated undertakings are stated at amortised cost, comprising the Group's share of their net assets, adjusted where necessary and practicable to reflect the Group's accounting policies, and includes goodwill arising on acquisition, net of accumulated amortisation. The Group's share of associated undertakings' attributable profit, including the amortisation for the period of the Group's goodwill arising on the acquisition of such associated undertakings, is disclosed in a single line in the profit and loss account. Full details of Richemont's share of associated undertakings' operating results, goodwill amortisation, net interest, taxation and minority interests are provided within the notes to the financial statements.

(L) OTHER LONG-TERM ASSETS

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included within current assets. Investments that are initiated by the Group by providing money, goods or services directly to a debtor, other than those originated as trading investments, are classified as originated investments. Investments with fixed maturity which the Group has the intent and ability to hold to maturity are classified as investments held-to-maturity and are included within other long-term assets. Investments intended to be held for an indefinite period of time are classified as available-for-sale and are included within other long-term assets. Trading and available-for-sale investments are carried at fair value, whilst originated and held-to-maturity investments are carried at amortised cost. Realised and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the profit and loss account in the period in which they arise.

All purchases of investments are recognised at the trade date and the cost of purchase includes transaction costs. Sales of securities are recognised at the trade date.

(M) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. In general, cost is determined on either a weighted average basis or a 'first in first out' basis depending on the nature of the inventory. The cost of manufactured products comprises material cost plus direct labour, a proportion of overheads attributable to the stage of production reached and, where applicable, duties and taxes.

(N) DEBTORS

Trade and other debtors are stated at original invoiced amount, net of provisions for amounts which are not expected to be recoverable in full.

(O) EMPLOYEE BENEFITS

The Group operates a number of defined benefit and defined contribution plans throughout the world, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies, taking account of the recommendations of independent qualified actuaries.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who carry out a full valuation of the plans every year. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are spread forward over the average remaining service lives of employees.

The Group's contributions to the defined contribution pension plans are charged to the profit and loss account in the year to which they relate.

The Group operates a stock option plan for executives. Options issued under the plan are accounted for in line with the Group's accounting policy with respect to treasury units.

(P) PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation. Provisions are quantified based on reliable estimates of the probable outcomes. Provisions are made for warranty repair costs relating to the sale of certain products which are sold under international guarantee against mechanical faults. Restructuring costs and all other provisions are recognised in the period in which the Group becomes legally or constructively committed to payment.

(Q) FINANCIAL RISK MANAGEMENT

The international nature of the Group's activities exposes it to a variety of financial risks, including the effects of changes in foreign exchange rates and interest rates.

The Group's financial instruments include derivative instruments, as well as cash and cash equivalents, investments, receivables, accounts payable and borrowings. The Group utilises derivative financial instruments in order to hedge interest rate exposure and foreign exchange risk.

All derivatives are recognised on the balance sheet at their fair value. The Group designates certain derivatives, on the date that a derivative contract is entered into, as either a hedge of the fair value of a recognised asset or liability (fair value hedge); or a hedge of a firm commitment or of a forecast transaction (cash flow hedge); or a hedge of a net investment in a foreign entity.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge and is assessed as being highly effective, are recorded in the profit and loss account, along with the change in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge and is assessed as being highly effective, are recognised directly in equity (hedging reserve). Amounts deferred in equity are included in the profit and loss account in the same period as that during which the hedged firm commitment or forecast transaction affects net profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecast transaction is ultimately recognised in the profit and loss account. When a committed or forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in unitholders' funds is immediately transferred to the profit and loss account.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39. Changes in the fair value of derivatives that do not qualify for hedge accounting under IAS 39 and those elements of derivatives excluded from the measure of hedge effectiveness are recognised in the profit and loss account.

Hedges of a net investment in a foreign entity are accounted for on a similar basis to cash flow hedges. Where the hedging instrument is a derivative, any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in unitholders' funds; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

The Group formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also formally assesses, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 30. Movements on the hedging reserve are shown in note 21.

The fair value of publicly traded derivatives, securities and investments is based on quoted market prices at the balance sheet date. In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date.

(R) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, other short-term marketable investments and bank overdrafts. In the balance sheet, bank overdrafts are included in current liabilities.

(S) TREASURY UNITS

The consideration paid on the acquisition of own units is reflected in the reserve for unit buy-back within unitholders' funds. The amount received from the disposal of own units is reflected as a movement in the same reserve.

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 € m	2002 restated € m
Sales	2	3 651	3 860
Cost of sales		(1 367)	(1 382)
Gross profit		2 284	2 478
Net operating expenses	3	(2 025)	(1 996)
Operating profit		259	482
Exceptional items	4	272	–
Profit before net investment expense and taxation		531	482
Net investment expense	5	(56)	(46)
Profit before taxation		475	436
Taxation	6	(50)	(107)
Profit after taxation		425	329
Minority interests		3	2
Share of results of associated undertaking	7	300	277
Net profit	8	728	608
Earnings per unit	9	€	€
Earnings per unit on a reported basis – basic		1.309	1.089
Earnings per unit on a reported basis – fully diluted		1.290	1.083

A summary of net profit, adjusted to exclude the effects of goodwill amortisation and exceptional items, is set out below:

	Note	2003 € m	2002 restated € m
Net profit as reported		728	608
Goodwill amortisation in respect of associated undertaking		186	200
Exceptional items		(272)	–
Exceptional items reported by associated undertaking		–	18
Net profit on an adjusted basis		642	826
Earnings per unit	9	€	€
Earnings per unit on an adjusted basis – basic		1.155	1.479
Earnings per unit on an adjusted basis – fully diluted		1.141	1.463

The above summary of adjusted profit is supplementary to the requirements of Swiss generally accepted accounting principles.

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2003

	Notes	2003 € m	2002 restated € m
Long-term assets			
Property, plant and equipment	10	735	854
Intangible assets	11	66	49
Deferred tax assets	12	137	121
Investment in associated undertaking	13	2 590	3 198
Other long-term assets	14	991	349
		4 519	4 571
Net current assets			
Inventories	15	1 604	1 724
Debtors	16	950	972
Cash		150	226
Current assets		2 704	2 922
Current liabilities	17	(1 421)	(1 973)
Current tax liabilities		(76)	(93)
Provisions	24	(123)	(40)
		1 084	816
		5 603	5 387
Equity			
Share capital	18	334	334
Participation reserve	19	645	645
Unitholders' capital	20	979	979
Retained earnings and other reserves	21	4 013	3 866
Unitholders' funds		4 992	4 845
Minority interests		6	50
		4 998	4 895
Long-term liabilities			
Borrowings	22	410	316
Secured call warrants	23	37	–
Provisions	24	53	65
Post-retirement and other benefit obligations	25	83	51
Deferred tax liabilities	12	22	60
		605	492
		5 603	5 387

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2003

	Notes	2003 € m	2002 € m
Cash generated from operations	27	556	286
Interest income and similar items		10	10
Interest paid and similar items		(47)	(64)
Dividends from associated undertaking		258	228
Taxation paid		(125)	(180)
Net cash inflow from operating activities		652	280
Investing activities			
Acquisition of property, plant and equipment		(167)	(301)
Proceeds from disposal of property, plant and equipment		16	–
Acquisition of intangible assets		(30)	(23)
Proceeds from disposal of intangible assets		1	16
Acquisitions of subsidiary undertakings and minority interests, net of cash acquired	28	(106)	(151)
Proceeds from sale of secured call warrants		31	–
Acquisitions of other long-term assets		(30)	(30)
Proceeds from disposals of other long-term assets		16	14
Net cash used in investing activities		(269)	(475)
Net cash inflow/(outflow) before financing activities		383	(195)
Financing activities			
Proceeds from long-term borrowings		212	265
Repayments of long-term borrowings		(515)	(211)
Dividend paid on Richemont SA participation reserve		(178)	(168)
Dividend paid to minority interests		(3)	(1)
Buy-back of Richemont units		(31)	(52)
Other		17	20
Net cash used in financing activities		(498)	(147)
Net cash outflow after financing activities		(115)	(342)
Effects of exchange rate movements		94	(6)
Net decrease in cash and cash equivalents		(21)	(348)
Cash and cash equivalents at beginning of year		(723)	(375)
Cash and cash equivalents at end of year	29	(744)	(723)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2003

	Share capital €m	Participation reserve €m	Reserve for unit buy-back €m	Translation and other reserves €m	Retained earnings €m	Unitholders' funds total €m	Minority interests €m	Total €m
Balance at 1 April 2001 as previously reported	334	645	(369)	87	7 034	7 731	125	7 856
Effect of change in accounting policy (note 1)	–	–	–	(7)	(3 285)	(3 292)	(34)	(3 326)
Balance at 1 April 2001 as restated	334	645	(369)	80	3 749	4 439	91	4 530
Exchange adjustments	–	–	–	(13)	–	(13)	–	(13)
Cash flow hedges								
– fair value losses	–	–	–	(1)	–	(1)	–	(1)
– transfers to the profit and loss account	–	–	–	6	–	6	–	6
Purchase of minority interests	–	–	–	–	–	–	(38)	(38)
Net profit	–	–	–	–	608	608	–	608
Loss attributable to minority interests	–	–	–	–	–	–	(2)	(2)
Goodwill set off against unitholders' funds	–	–	–	–	(34)	(34)	–	(34)
Reclassification	–	–	–	–	15	15	–	15
Net movement in Richemont units	–	–	(7)	–	–	(7)	–	(7)
Dividend paid on Richemont SA participation reserve	–	–	–	–	(168)	(168)	–	(168)
Dividend paid to minority interests	–	–	–	–	–	–	(1)	(1)
Balance at 1 April 2002 as restated	334	645	(376)	72	4 170	4 845	50	4 895
– Balance at 1 April 2002 as previously reported	334	645	(376)	86	7 294	7 983	82	8 065
– Effect of change in accounting policy (note 1)	–	–	–	(14)	(3 124)	(3 138)	(32)	(3 170)
Movements in the year ended 31 March 2003								
Exchange adjustments	–	–	–	(260)	(19)	(279)	–	(279)
Cash flow hedges								
– fair value gains	–	–	–	51	–	51	–	51
– transfers to the profit and loss account	–	–	–	1	–	1	–	1
Purchase of minority interests	–	–	–	–	–	–	(38)	(38)
Net profit	–	–	–	–	728	728	–	728
Loss attributable to minority interests	–	–	–	–	–	–	(3)	(3)
Goodwill set off against unitholders' funds	–	–	–	–	(39)	(39)	–	(39)
Net movement in Richemont units	–	–	(137)	–	–	(137)	–	(137)
Dividend paid on Richemont SA participation reserve	–	–	–	–	(178)	(178)	–	(178)
Dividend paid to minority interests	–	–	–	–	–	–	(3)	(3)
Balance at 31 March 2003	334	645	(513)	(136)	4 662	4 992	6	4 998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 MARCH 2003

Note 1 – Change in accounting policy

The Group has changed its accounting policy with respect to goodwill arising on the acquisition of subsidiary undertakings. Previously, goodwill was recognised as an intangible asset and amortised through the consolidated profit and loss account on the straight-line basis over its estimated useful life, up to a maximum of 20 years. The Group has now decided to change this policy and to deduct goodwill arising on the acquisition of subsidiary undertakings immediately from unitholders' funds at the time of acquisition. This policy has been applied retrospectively and comparative figures restated accordingly.

The Group considers the new policy to be more appropriate than the old for two principal reasons:

(a) Excluding the goodwill amortisation charge brings the externally reported operating results in line with the Group's internal financial reporting system.

(b) In the context of future compliance with all requirements of International Financial Reporting Standards, consistency between the external and internal financial reporting simplifies the presentation of segmental information. The Group will otherwise be faced with significant practical problems in allocating goodwill to individual segments.

The change in accounting policy has not been extended to the Group's investment in associated undertakings, which represents the investment in British American Tobacco ('BAT'), as the Group considers that the reasons given above for the change in accounting policy do not apply to its investment in associated undertakings.

The impact of this change in accounting policy on the profit and loss account, earnings per unit, retained earnings and other reserves and goodwill is shown below:

	Year ended 31 March 2002 as previously reported € m	Impact of change in accounting policy € m	Year ended 31 March 2002 as restated € m
Impact of restatement on prior year profit and loss account			
Operating profit	482	–	482
Goodwill amortisation	(182)	182	–
Profit before net investment expense and taxation	300	182	482
Net investment expense	(46)	–	(46)
Profit before taxation	254	182	436
Taxation	(107)	–	(107)
Profit after taxation	147	182	329
Minority interests	4	(2)	2
Share of results of associated undertaking	277	–	277
Net profit	428	180	608
Impact of restatement on earnings per unit	€	€	€
Earnings per unit on a reported basis – basic	0.767	0.322	1.089
Earnings per unit on a reported basis – fully diluted	0.770	0.313	1.083

Note 1 – Change in accounting policy (continued)

	31 March 2002 as previously reported € m	Impact of change in accounting policy € m	31 March 2002 as restated € m
Impact of restatement on retained earnings and other reserves			
Balance at 1 April 2001	6 752	(3 292)	3 460
Exchange and other adjustments	(6)	8	2
Profit for the year	428	180	608
Goodwill deducted from unitholders' funds	–	(34)	(34)
Dividend paid	(168)	–	(168)
Movement in hedging reserve	5	–	5
Movement in reserve for unit buy-back	(7)	–	(7)
Balance at 31 March 2002	7 004	(3 138)	3 866
Impact of restatement on minority interests			
Balance at 1 April 2001	125	(34)	91
Loss for the year	(4)	2	(2)
Acquisition of minority interests	(38)	–	(38)
Dividend paid	(1)	–	(1)
Balance at 31 March 2002	82	(32)	50
Impact of restatement on goodwill			
Balance at 1 April 2001	3 326	(3 326)	–
Amortisation for the year	(182)	182	–
Other movements	(8)	8	–
Goodwill acquired	34	(34)	–
Balance at 31 March 2002	3 170	(3 170)	–

If the Group had not changed its accounting policy in the current year, the amounts presented in the consolidated financial statements relating to goodwill on acquisition of subsidiary undertakings would have been:

	€ m
Cost at 1 April 2002	3 646
Exchange adjustments	(3)
Goodwill acquired	39
Cost at 31 March 2003	3 682
Accumulated amortisation at 1 April 2002	476
Amortisation charge	181
Accumulated amortisation at 31 March 2003	657
Net book value at 31 March 2002	3 170
Net book value at 31 March 2003	3 025

Profit for the year would have been reduced by the amortisation charge shown above. Equity at 1 April 2002 and 31 March 2003 would have been increased by the net book value of goodwill at those dates as shown above.

Note 2 – Sales

Analysis by major product line

	2003 € m	2002 € m
Jewellery	815	860
Watches	1 705	1 794
Leather goods	270	303
Writing instruments	277	285
Clothing and other	584	618
	3 651	3 860

Analysis by geographical area

	2003 € m	2002 € m
Europe	1 558	1 710
Asia	1 400	1 454
Japan	705	744
Asia Pacific	695	710
Americas	693	696
	3 651	3 860

Analysis of sales by category

	2003 € m	2002 € m
Sales of goods	3 625	3 829
Royalty income	26	31
	3 651	3 860

Note 3 – Net operating expenses

The analysis of net operating expenses is as follows:

	2003 € m	2002 € m
Selling and distribution costs	932	897
Communication costs	392	422
Administration expenses	701	677
	2 025	1 996

Note 3 – Net operating expenses (continued)

Profit of the Company and its subsidiary undertakings includes the following items:

	2003 € m	2002 € m
Depreciation of property, plant and equipment (note 10)	136	123
Amortisation of intangible assets (note 11)	14	10
Operating lease rentals	296	297
Cash flow hedges – transfer from unitholders' funds	1	6
Foreign exchange (gains)/losses on monetary items	(9)	6
Impairment of property, plant and equipment (note 10)	28	20
Trade receivables – impairment charge for bad debts	6	5

	2003 € m	2002 € m
Personnel expenses		
Wages and salaries	735	720
Social security costs	119	113
Pension costs		
– defined contribution plans	25	27
– defined benefit plans (note 25)	16	13
Other (note 25)	10	–
	905	873
Average number of persons employed by the Group during the year calculated on a full-time equivalent basis:		
Switzerland	4 450	4 340
Rest of world	10 528	9 693
	14 978	14 033

Note 4 – Exceptional items

	2003 € m	2002 € m
Gain arising on BAT preference shares	301	–
Write down of originated investment in Hanover Direct	(29)	–
	272	–

a) Gain arising on BAT preference shares

The exceptional gain of € 301 million (2002: nil) represents the gain arising from the revised accounting treatment in respect of the Group's holding of preference shares in BAT following the issue of call warrants. The warrant issue has had the effect of locking in the consideration to be received in June 2004 in respect of the shares at £ 6.75 per share.

Note 4 – Exceptional items (continued)

Under the terms of the merger agreement between Richemont, Remgro Limited, and British American Tobacco, the redeemable convertible preference shares fall to be redeemed for cash at a fixed price of £ 6.75 per share on 7 June 2004 unless sold through the market prior to that date, in which case the preference shares would automatically convert to ordinary shares in BAT.

In January 2003, Richemont's joint venture interest, R&R Holdings SA, issued call warrants, listed on the Luxembourg Stock Exchange, that give the holder of each warrant the right to receive from R&R Holdings one ordinary share in BAT on 28 May 2004, upon payment of £ 6.75. The issue of the call warrants therefore irrevocably commits R&R Holdings to dispose of the balance of the BAT preference shares, either as a consequence of the exercise of the warrants or through the redemption of the shares by BAT.

Reflecting the finite life of the BAT preference share interest the Group has, with effect from January 2003, accounted for the shares as a debt rather than an equity interest, carrying the shares at the discounted present value of the £ 6.75 receivable in June 2004, together with the present value of estimated dividends receivable thereon. Accordingly, the carrying value of these shares has been reclassified to other long-term assets. Within this category the Group has also recognised the valuation of the conversion rights embedded within these preference shares. The Group's liability under the call warrants, which is equal to the conversion rights embedded in the preference shares and is based on the price at which these warrants were quoted on the Luxembourg Stock Exchange at the balance sheet date, is included in long-term liabilities. The current estimated value of the right to receive future dividends within 12 months after the balance sheet date has been included in debtors and the right to receive future dividends more than 12 months after the balance sheet date is included in other long-term assets.

b) Write down of originated investment in Hanover Direct

Richemont has sold its remaining interest in Hanover Direct, Inc. to an independent investor group in May 2003 for US$ 40 million. The carrying value of the preference shares has accordingly been written down to this figure in the financial statements as at 31 March 2003.

Note 5 – Net investment income/(expense)

	2003 € m	2002 € m
Interest income and similar items	5	14
Interest expense and similar items	(41)	(60)
Fair value losses on financial instruments	(20)	–
	(56)	(46)

Note 6 – Taxation

	2003 € m	2002 € m
Current taxation	101	116
Current taxation in respect of prior years	8	–
Deferred taxation	(59)	(9)
	50	107

Note 7 – Share of results of associated undertaking

The Group's share of the results of British American Tobacco is set out below:

	2003 € m	2002 € m
Operating profit	847	953
Goodwill amortisation	(186)	(200)
Exceptional items	–	(29)
Net interest expense	(60)	(86)
Profit before taxation	601	638
Taxation	(255)	(306)
Profit after taxation	346	332
Minority interests	(46)	(55)
Share of associate's results	300	277

Analysed as follows:	2003 € m	2002 € m
Share of profit on an adjusted basis	486	495
Goodwill amortisation	(186)	(200)
Amortisation charge in respect of associated undertaking	(143)	(149)
Amortisation charge reflected in Group's share of the results of BAT	(43)	(51)
Exceptional items	–	(18)
Share of profit on a reported basis	300	277

Note 7 – Share of results of associated undertaking (continued)

Richemont accounts for its effective interest in BAT under the equity method. For the nine months ended 31 December 2002, the effective interest in BAT was 21.0 per cent representing its interest in both the ordinary and preference shares of BAT. With effect from 1 January 2003, as a result of the reclassification of the preference shares to other long-term assets, Richemont ceased to equity account for its interest in those preference shares. Accordingly, the Group has equity accounted only its 18.6 per cent effective interest in the ordinary share capital of BAT during the three-month period ended 31 March 2003.

Note 8 – Net profit

	2003 € m	2002 restated € m
Net profit of the Company and its subsidiary undertakings	428	331
Group's share of profit of associated undertaking	300	277
Net profit	728	608

Note 9 – Earnings per unit

a) On a reported basis

Basic earnings per unit is calculated by reference to the weighted average number of units outstanding during the period of 556.0 million units (2002: 558.3 million units), together with the net profit of the Group on a reported basis of € 728 million for the year (2002: € 608 million). The number of units outstanding takes into account the effects of the Group's buy-back programme.

Fully diluted earnings per unit is calculated by reference to the 574.2 million units outstanding (2002: 574.2 million units) and net profit on a reported basis for the year of € 741 million (2002: € 622 million) which reflects the notional additional interest of € 13 million (2002: € 14 million) which would have accrued to the Group had the full number of units been outstanding during the period.

b) On an adjusted basis

Basic earnings per unit is calculated by reference to the weighted average number of units outstanding during the period of 556.0 million units (2002: 558.3 million units), together with the net profit of the Group on an adjusted basis of € 642 million for the year (2002: € 826 million). The number of units outstanding takes into account the effects of the Group's buy-back programme.

Fully diluted earnings per unit is calculated by reference to the 574.2 million units outstanding (2002: 574.2 million units) and net profit on an adjusted basis for the year of € 655 million (2002: € 840 million) which reflects the notional additional interest of € 13 million (2002: € 14 million) which would have accrued to the Group had the full number of units been outstanding during the period.

Note 10 – Property, plant and equipment

	Land and buildings € m	Plant and machinery € m	Fixtures, fittings, tools and equipment € m	Assets under construction € m	Total € m
Cost					
Balance at 1 April 2002	417	272	711	60	1 460
Exchange adjustments	(12)	(8)	(68)	(11)	(99)
Additions	14	23	108	24	169
Transfers and reclassifications	(57)	(30)	75	(46)	(58)
Disposals and provisions	(5)	(27)	(86)	(5)	(123)
Balance at 31 March 2003	357	230	740	22	1 349
Depreciation					
Balance at 1 April 2002	67	170	369	–	606
Exchange adjustments	(2)	(3)	(32)	–	(37)
Charge for the year	11	27	98	–	136
Transfers and reclassifications	(27)	(17)	14	–	(30)
Disposals and provisions	(2)	(19)	(68)	–	(89)
Impairment charge	13	11	4	–	28
Balance at 31 March 2003	60	169	385	–	614
Net book value:					
at 31 March 2002	350	102	342	60	854
at 31 March 2003	297	61	355	22	735

Included above is property, plant and equipment with a net book value of € 19 million (2002: € 1 million) held under finance leases.

The current year impairment charge of € 28 million relates to the reorganisation of manufacturing operations.

The fire insurance value of property, plant and equipment at 31 March 2003 was € 1 151 million (2002: € 1 387 million).

Committed capital expenditure, for which no provision has been made in these financial statements:

	2003 € m	2002 € m
Property, plant and equipment	16	9

Note 11 – Intangible assets

	Leasehold and distribution rights € m	Software € m	Total € m
Cost			
Balance at 1 April 2002	108	15	123
Exchange adjustments	(1)	–	(1)
Additions	29	4	33
Disposals	(4)	–	(4)
Balance at 31 March 2003	132	19	151
Amortisation			
Balance at 1 April 2002	66	8	74
Exchange adjustments	(1)	–	(1)
Charge for the year	10	4	14
Disposals	(2)	–	(2)
Balance at 31 March 2003	73	12	85
Net book value:			
at 31 March 2002	42	7	49
at 31 March 2003	59	7	66

The remaining amortisation periods for leasehold rights, distribution rights and software range between 1 and 10 years.

Note 12 – Deferred tax assets and liabilities

	1 April 2002 € m	(Charge)/ credit for the year € m	Acquisitions € m	Exchange differences € m	31 March 2003 € m
Deferred tax assets					
Provisions disallowed for taxation	54	56	2	(6)	106
Tax losses carried forward	13	5	–	(1)	17
Unrealised gross margin elimination	56	(45)	5	–	16
Other	(2)	6	(1)	(5)	(2)
	121	22	6	(12)	137
Deferred tax liabilities					
Accelerated tax depreciation	(9)	12	3	(2)	4
Provisions allowed for taxation	(57)	25	–	–	(32)
Other	6	–	–	–	6
	(60)	37	3	(2)	(22)

In addition, at 31 March 2003, the Company and its subsidiary undertakings had taxation losses of € 381 million (2002: € 278 million) in respect of which taxation assets had not been recognised as the future utilisation of these losses is uncertain. Based on current rates of taxation, utilisation of these losses at 31 March 2003 would result in the recognition of a taxation asset of € 127 million (2002: € 63 million).

Note 13 – Investment in associated undertaking

As a result of the merger of Rothmans International and British American Tobacco, which was completed in June 1999, Richemont and Rembrandt Group Limited, through R&R Holdings, held a 35 per cent equity interest in the enlarged British American Tobacco group. The shareholding comprised a 25 per cent interest in ordinary shares (604.3 million ordinary shares) and a 10 per cent interest in the form of 241.7 million convertible redeemable preference shares.

The preference shares rank uniformly with ordinary shares for distribution of profits. On any return of capital on a winding-up of British American Tobacco, the assets of that company will be applied in priority in paying the holders of convertible redeemable preference shares the sum of £ 6.75 per share.

On 7 June 2004, British American Tobacco is required to redeem all of the preference shares not previously redeemed or converted into ordinary shares. The redemption price will be £ 6.75 per share.

R&R Holdings is held as to two thirds by Richemont and one third by Remgro Limited ('Remgro'), the successor company to Rembrandt Group Limited, following the restructuring of the latter as at 1 April 2000. Richemont's effective interest in British American Tobacco at the date of the merger was 23.3 per cent.

Following the disposal of one half of R&R Holdings' interest in the BAT preference shares in June 2000, Richemont's effective interest in BAT was reduced to 21.1 per cent and, following the allocation of shares under BAT's share option scheme, Richemont's effective shareholding at 31 March 2002 amounted to 21.0 per cent.

In January 2003, R&R Holdings issued secured call warrants, listed on the Luxembourg Stock Exchange, that gives the holder of each warrant the right to receive from R&R Holdings one ordinary share in BAT on 28 May 2004, upon payment to R&R Holdings of £ 6.75. The issue of these warrants effectively crystallised the terms of the disposal of the preference shares at £ 6.75 per share, either by way of the exercise of the warrants or through the redemption of the preference shares by BAT. Accordingly, the preference shares have been reclassified as other long-term assets.

Richemont previously accounted for its entire interest in BAT under the equity method. For the nine months ended 31 December 2002, the Group's effective interest in BAT was 21.0 per cent, representing its interest in both the ordinary and preference shares of BAT. As a result of the issue of the secured call warrants, Richemont ceased to equity account for its interest in the preference shares with effect from 1 January 2003. Accordingly, the Group has equity accounted for only its 18.6 per cent effective interest in the BAT ordinary shares for the three month period ended 31 March 2003.

The market capitalisation of BAT ordinary shares at 31 March 2003 was £ 12 826 million (2002: £ 14 719 million). The fair value of the Group's effective interest of 18.6 per cent in BAT ordinary shares was € 3 453 million (2002: effective interest of 18.5 per cent with a fair value of € 4 448 million).

Investment in associated undertaking at 31 March 2003 is analysed as follows:

	2003 € m	2002 € m
Carrying value at 1 April	3 198	3 217
Exchange adjustments	(128)	(44)
Reclassification of preference shares	(515)	–
Net increase in post-acquisition retained earnings and other reserves	221	225
Amortisation of goodwill	(186)	(200)
Carrying value at 31 March	2 590	3 198

	2003 € m	2002 € m
British American Tobacco		
– Share of net tangible liabilities	(87)	(281)
– Goodwill	668	919
	581	638
Richemont		
– Goodwill arising on the Group's investment in BAT, net of amortisation	2 009	2 560
	2 590	3 198

Note 14 – Other long-term assets

	2003 € m	2002 € m
Originated investments		
– BAT preference shares		
– Carrying value	743	–
– Conversion rights	37	–
– Right to receive future dividend	30	–
– Hanover Direct preference shares	–	64
Available-for-sale investments		
– Shares in unlisted undertakings	41	57
Other		
– Unit purchase scheme receivables (note 25)	–	92
– Collections	71	65
– Other	69	71
	991	349

Note 14 – Other long-term assets (continued)

Following the issue by R&R Holdings of secured call warrants in respect of preference shares convertible into BAT ordinary shares, the Group effectively crystallised the disposal of its interest in the preference shares of BAT. Accordingly, the preference shares have been reclassified as an originated investment. The carrying value of these BAT preference shares has been determined by reference to the discounted present value of the redemption proceeds totalling £ 6.75 per share on the Group's effective holding of 80.6 million preference shares.

The conversion rights represent the fair value of the embedded right to convert BAT preference shares to ordinary shares in June 2004.

The Group has recognised an amount of € 30 million (2002: nil) being the estimated fair value of the right to receive the final dividend payable by BAT in April 2004 on the Group's effective holding in the BAT preference shares.

Note 15 – Inventories

	2003 € m	2002 € m
Raw materials and consumables	42	100
Work in progress	415	418
Finished goods and goods for resale	1 147	1 206
	1 604	1 724

Note 16 – Debtors

	2003 € m	2002 € m
Trade debtors	404	462
Other debtors	175	205
BAT ordinary and preference shares		
– dividends receivable	184	176
Assets held for resale		
– Hanover Direct preference shares	37	–
– Other	33	2
Prepayments and accrued income	117	127
	950	972

Trade debtors are stated net of provisions of € 22 million (2002: € 23 million).

Included within dividends receivable is an amount of € 13 million (2002: nil) being the estimated fair value of the right to receive the interim dividend payable by BAT in September 2003 on the Group's effective holding of BAT preference shares.

There is no significant concentration of credit risk with respect to trade debtors due to the Group's internationally diverse customer base.

Note 17 – Current liabilities

	2003 € m	2002 € m
Bank loans and overdrafts	894	949
Short-term portion of long-term loans and finance leases	23	417
Trade creditors	148	189
Duty and excise taxes	3	1
Other creditors	182	219
Accruals and deferred income	171	198
	1 421	1 973

Note 18 – Share capital

	2003 € m	2002 € m
Authorised, issued and fully paid:		
522 000 000 "A" bearer shares with a par value of SFr 1.00 each	304	304
522 000 000 "B" registered shares with a par value of SFr 0.10 each	30	30
	334	334

Note 19 – Participation reserve

	2003 € m	2002 € m
Reserve in respect of 574 200 000 participation certificates with no par value issued by Richemont SA	645	645

Note 20 – Unitholders' capital

In accordance with the articles of incorporation of the respective companies, the shares issued by the Company and the participation certificates issued by Richemont SA have been twinned as follows:

(a) Each "A" bearer share in the Company with a par value of SFr 1.00 is twinned with one bearer participation certificate in Richemont SA with no par value to form one "A" unit, issued to bearer.

(b) Every ten "B" registered shares in the Company with a par value of SFr 0.10 each are twinned with one registered participation certificate in Richemont SA with no par value to form one "B" unit, issued in registered form.

Note 20 – Unitholders' capital (continued)

The total number of units in issue is thus made up as follows:

	2003 Units	2002 Units
(a) "A" bearer units, each comprising one "A" bearer share in the Company and one bearer participation certificate in Richemont SA	522 000 000	522 000 000
(b) "B" registered units, each comprising ten "B" registered shares in the Company and one registered participation certificate in Richemont SA	52 200 000	52 200 000
	574 200 000	574 200 000

In view of this indivisible twinning of shares and participation certificates, the participation reserve of Richemont SA is presented in the consolidated balance sheet of the Company as a component of unitholders' funds. For the same reason, information which would normally be stated on a per share basis is stated in these financial statements on a per unit basis.

Note 21 – Retained earnings and other reserves

	2003 € m	2002 € m
Balance at 1 April as previously reported	7 004	6 752
– effect of change in accounting policy (note 1)	(3 138)	(3 292)
Balance at 1 April as restated	3 866	3 460
Exchange and other adjustments	(279)	2
Net profit	728	608
Goodwill deducted from unitholders' funds	(39)	(34)
Dividend paid on Richemont SA participation reserve	(178)	(168)
Movements in hedging reserve	52	5
Movements in reserve for buy-back of Richemont units established in Compagnie Financière Richemont SA and Richemont SA entity accounts	(137)	(7)
Balance at 31 March	4 013	3 866

Legal reserves

Legal reserves amounting to € 95 million (2002: € 95 million) are included above but are not available for distribution.

Note 21 – Retained earnings and other reserves (continued)

Reserve for unit buy-back

In order to hedge its obligations arising under the stock option plan, the Group has re-purchased Richemont "A" units in terms of approved buy-back programmes. Changes in the holding of this stock of units are shown as movements in unitholders' funds as follows:

Movement in reserve for unit buy-back

	Units millions	€ m
Balance at 1 April 2001	17.3	369
Repurchased	2.0	52
Sold	(2.8)	(45)
Balance at 31 March 2002	16.5	376
Repurchased	7.0	138
Sold	(0.1)	(1)
Balance at 31 March 2003	23.4	513

Of the units repurchased during the current year, 1.5 million units were acquired in the open market at a total cost of € 31 million, while the remaining 5.5 million units were acquired from unit purchase scheme participants at a cost of € 107 million (note 25).

The market value of the 23.4 million units (2002: 16.5 million units) held by the Group at the year-end, based on the closing price at 31 March 2003 of SFr 18.45 (2002: SFr 38.75), amounted to € 293 million (2002: € 435 million).

Hedging reserve

The table below shows movements on the hedging reserve during the year:

	2003 € m	2002 € m
Balance at 1 April	(1)	–
Effect of applying IAS 39 in prior year	–	(6)
Balance at 1 April restated	(1)	(6)
Fair value gains/(losses) on cash flow hedging instruments	51	(1)
Amount transferred to profit and loss account	1	6
Balance at 31 March	51	(1)

Note 22 – Borrowings

	2003 € m	2002 € m
Bank loans	414	721
Other loans	1	11
	415	732
Short-term portion of long-term loans	(21)	(417)
Long-term loans	394	315
Obligations under finance leases	16	1
	410	316

Bank and other loans are subject to market rates of interest ranging from 0.5 per cent to 4.2 per cent and are denominated in euros, US dollars, and Japanese yen. Obligations under finance leases, included in long-term borrowings, fall due for payment between two and five years.

An analysis of long-term loans by due date of repayment is set out below:

	2003 € m	2002 € m
Amount repayable in the financial years ending 31 March:		
2003	–	417
2004	21	119
2005	243	79
2006	122	79
2007	2	32
thereafter	27	6
	415	732

Note 23 – Secured call warrants

	2003 € m	2002 € m
Secured call warrants	37	–

In January 2003 the Group, through R&R Holdings, sold secured call warrants in respect of preference shares convertible into ordinary shares of BAT. These are exercisable at the option of the warrant holder on 28 May 2004 at £ 6.75 per warrant. The carrying value of these warrants has been determined by reference to the market price as quoted on the Luxembourg Stock Exchange as at 31 March 2003.

Note 24 – Provisions

	2003 € m	2002 € m
Provisions	176	105
Current portion	(123)	(40)
	53	65

Movements in provisions for the year are set out below:

	Warranties € m	Restructuring € m	Other € m	Total € m
Balance at 1 April 2002	19	33	53	105
Exchange adjustments	(1)	(2)	(5)	(8)
Additional provisions	9	63	59	131
Provisions reversed	(3)	(10)	(7)	(20)
Utilised in the year	(5)	(10)	(17)	(32)
	19	74	83	176
Current portion	(9)	(68)	(46)	(123)
Balance at 31 March 2003	10	6	37	53

Warranties

Group companies provide warranties on certain products. A provision of € 19 million (2002: € 19 million) has been recognised for expected warranty claims based on past experience of repairs and returns. It is expected that € 9 million of this provision will be used within the following twelve months and the remainder will be utilised over the expected lives of the products.

Note 24 – Provisions (continued)

Restructuring
This provision represents the Group's obligations arising from committed restructuring activities, the majority of which will be completed within the next year. The remainder of this provision at 31 March 2003 is expected to be utilised by March 2005.

Other provisions
These provisions comprise legal and constructive obligations, particularly in respect of onerous lease contracts and employee commitments. The balance at 31 March 2003 is expected to be utilised by 2014. It is not expected that the outcome of legal claims provided for will give rise to any significant loss beyond the amounts provided at 31 March 2003.

Note 25 – Employee benefits

Post-retirement and other benefit obligations
Movement in the liability recognised in the balance sheet:

	2003 € m	2002 € m
Balance at 1 April	51	44
Transfer of provision from current liabilities at 1 April 2002	13	–
Total expense for the year		
– pension costs	16	13
– other	10	–
Contributions paid	(8)	(9)
Other adjustments	–	2
Net liability	82	50
Other post-retirement benefits	1	1
Balance at 31 March	83	51

The net liability reflected in long-term liabilities in the balance sheet is determined as follows:

	2003 € m	2002 € m
Present value of funded obligations	157	202
Fair value of plan assets	(128)	(203)
	29	(1)
Present value of unfunded obligations	74	44
Unrecognised actuarial (deficit)/gain	(21)	7
Net liability	82	50

Note 25 – Employee benefits (continued)

The amounts recognised in the profit and loss account are as follows:

	2003 € m	2002 € m
Current service cost	13	13
Interest cost	12	13
Expected return on plan assets	(10)	(13)
Other costs	10	–
Prior service cost/curtailment	1	–
Total included in 'Personnel expenses' (note 3)	26	13

Of the total expense, € 2 million and € 24 million were included respectively in cost of sales and net operating expenses.

The actual return on plan assets was a loss of € 15 million.

The principal actuarial assumptions used for accounting purposes reflected prevailing market conditions in each of the countries in which the Group operates and were as follows:

	2002/2003 cost	Year end benefit obligation	Weighted average
Discount rate	2.0% to 6.8%	1.2% to 9.7%	5.3%
Expected return on plan assets	2.5% to 8.5%	1.8% to 6.2%	5.7%
Future salary increases	1.5% to 5.0%	0.8% to 4.5%	3.9%
Future pension increases	1.3% to 2.5%	1.3% to 2.5%	2.3%

Assumptions used to determine the benefit expense and the end-of-year benefit obligations for the defined benefit plans varied within the ranges shown above. The weighted average rate for each assumption used to measure the benefit obligation is also shown. The assumptions used to determine end-of-year benefit obligations are also used to calculate the following year's cost.

The Group operates a number of defined benefit and defined contribution retirement arrangements. The major plans are the arrangements in Switzerland, UK and Germany.

In Switzerland, benefits provided are essentially defined contribution in nature but are subject to a statutory minimum benefit. Although the defined contribution element dominates the plans' benefit structures, the 'hybrid' nature of the promise means that, under IAS 19, the plans are technically defined benefit. For the principal schemes, nevertheless, it has been concluded that the most appropriate accounting treatment is to consider this arrangement as if it was a defined contribution plan, subject to a continuing check that the defined benefit minimum has no realistic expectation of impacting on benefits paid. Certain other plans, because of the investment and annuity conversion guarantees contained within the benefit structure of these plans, have been accounted for on a defined benefit basis.

Note 25 – Employee benefits (continued)

In the UK, benefits are related to service and final salary. The plan is funded by a separate trust, with a funding target to maintain assets equal to the value of the accrued benefits based on projected salaries.

In Germany, retirement benefits are related to service and final salary. Since no external pre-financing exists, the liability is recognised within the balance sheet of the Company, in line with local practice.

Benefits under arrangements other than those detailed above are generally related to service and either salary or grade. They are funded in all locations where this is consistent with local practice, otherwise the liability is recognised in the balance sheet.

The Group does not have any significant liabilities in respect of any other post-retirement benefits, including post-retirement healthcare liabilities.

Stock option plan

In 1999 the Group implemented three long-term unit-based compensation schemes for executives: an option scheme where executives were awarded options to acquire units at a predetermined price, a phantom option scheme where executives received a cash bonus based on the appreciation of the unit price over a given period of time and a unit purchase scheme where executives purchased units subject to certain restrictions (hereinafter collectively referred to as "unit-based compensation schemes"). The scheme in which executives were invited to participate was dependent on their country of residence. The benefits under all three schemes typically vested over periods of three to five years.

During the year under review the awards outstanding under the unit-based compensations schemes were cancelled and replaced by "classic" stock options (the right to purchase Richemont "A" units at a fixed price at some point in the future) issued in terms of a new stock option plan for use globally. All options granted in replacement of awards previously granted under the unit-based compensation schemes were granted at an exercise price of SFr 24.25 and generally awards previously granted at prices ranging from SFr 38.00 to SFr 42.00 were replaced by granting one stock option for every two awards previously held.

In addition to the grant of such replacement options at SFr 24.25 further stock options exercisable at SFr 20.00 per stock option were granted.

A reconciliation of the movement in the number of awards granted to executives is as follows:

	Number of units			
	Option	Phantom	Purchase	Total
Balance at 1 April 2001	2 919 100	4 706 400	2 737 500	10 363 000
Awarded	1 390 900	6 755 250	2 910 900	11 057 050
Exercised	(18 000)	(15 000)	(72 000)	(105 000)
Lapsed	(333 000)	(378 500)	(118 500)	(830 000)
Balance at 31 March 2002	**3 959 000**	**11 068 150**	**5 457 900**	**20 485 050**
Awarded	**250 000**	**–**	**62 940**	**312 940**
Exercised	**(5 000)**	**(79 500)**	**(10 000)**	**(94 500)**
Lapsed	**(280 600)**	**(542 500)**	**(286 600)**	**(1 109 700)**
Cancellation/repurchase	**(1 743 800)**	**(10 446 150)**	**(5 224 240)**	**(17 414 190)**
Options not cancelled	**2 179 600**	**–**	**–**	**2 179 600**
Stock options awarded at SFr 24.25	**16 311 575**	**–**	**–**	**16 311 575**
Options outstanding before further grant	**18 491 175**	**–**	**–**	**18 491 175**
Stock options awarded at SFr 20.00	**7 335 035**	**–**	**–**	**7 335 035**
Balance at 31 March 2003	**25 826 210**	**–**	**–**	**25 826 210**

a) Option and phantom schemes

During the year ended 31 March 2003, awards were granted at a weighted average exercise price of SFr 35.57 per unit (2002: SFr 35.40 per unit).

Options in respect of 84 500 units (2002: 33 000 units) were exercised during the year. These options were exercisable at SFr 24.25.

Note 25 – Employee benefits (continued)

b) Purchase scheme

During the year ended 31 March 2003, units were sold to executives at a weighted average price of SFr 24.78 (2002: SFr 37.21).

The Group repurchased 10 000 units from an executive during the year ended 31 March 2003 while during the prior year an executive took delivery of 72 000 units.

c) Stock option plan

Awards under the new stock option plan typically vest over periods of three to five years and have expiry dates, the date after which unexercised options lapse, of between 6 and 10 years from the date of grant.

The terms of the outstanding stock options at 31 March 2003 are as follows:

Vesting date	Weighted average purchase price	Number of options
1 July 2002	SFr 24.35	579 400
1 July 2003	SFr 24.26	4 706 567
1 July 2004	SFr 24.26	5 027 917
1 July 2005	SFr 24.26	4 645 821
1 July 2006	SFr 22.24	5 138 591
1 July 2007	SFr 21.05	3 226 452
1 July 2008	SFr 20.12	2 501 462
		25 826 210

Note 26 – Financial commitments and contingent liabilities

At 31 March 2003 the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material losses will arise. Details of the Group's commitments in respect of financial derivatives are given in note 30.

At 31 March 2003 the Company and its subsidiary undertakings had signed non-cancellable operating leases in respect of which the following minimum rentals are payable:

	Land and buildings 2003 € m	Land and buildings 2002 € m	Other assets 2003 € m	Other assets 2002 € m	Total 2003 € m	Total 2002 € m
Within one year	113	110	2	5	115	115
Between two and five years	306	306	4	5	310	311
Thereafter	295	347	9	1	304	348
	714	763	15	11	729	774

Note 27 – Cash inflow from operating activities

	2003 € m	2002 € m
Operating profit	259	482
Depreciation of property, plant and equipment	136	123
Amortisation of intangible assets	14	10
Other non-cash items	78	46
Decrease/(increase) in inventories	34	(289)
Decrease/(increase) in debtors	49	(59)
Decrease in current liabilities	(14)	(27)
	556	286

Cash inflow from operating activities is stated before taxation, returns on investments and servicing of finance. The figure reflects underlying cash flows incurred in respect of each caption and specifically excludes foreign exchange effects, movements in non-operating assets and liabilities and changes in working capital as a result of acquisitions.

Note 28 – Acquisitions of subsidiary undertakings and minority interests

	2003 € m	2002 € m
Consideration paid during the year	106	174
Cash and cash equivalents of subsidiary undertakings acquired	–	(23)
Acquisitions of subsidiary undertakings and minority interests – cash outflow	106	151
Analysed as:		
Acquisitions of subsidiary undertakings, net of cash acquired	–	66
Acquisitions of other minority interests	106	85
	106	151
Net consideration paid	106	174
Net assets acquired	(67)	(140)
Goodwill arising on the acquisition of subsidiaries and minority interests	39	34

The goodwill arising in the year has been recorded as a deduction from unitholders' funds.

Note 29 – Cash and cash equivalents

The cash and cash equivalents figure in the consolidated cash flow statement comprises:

	2003 € m	2002 € m
Cash	**150**	226
Bank loans and overdrafts	**(894)**	(949)
	(744)	(723)

Bank and other loans are subject to market rates of interest ranging from 0.5 per cent to 4.2 per cent.

Note 30 – Derivative financial instruments

The Group is exposed to financial risks arising from the international nature of its business operations and has therefore established appropriate policies to manage such risks.

The Group's overall financial risk management activities focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of the Group. The risk management strategy is reviewed and approved by the Board of Directors and carried out by central Group Treasury. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the operating units.

To manage such financial risks, the Group uses derivative hedging instruments to offset exposure, whereby the market risk associated with such instruments is primarily offset by equal and opposite movements in the positions covered. Treasury operations are restricted to the hedging of underlying financial risks; speculative trading is not permitted.

Note 30 – Derivative financial instruments (continued)

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar, Hong Kong dollar and the Japanese yen. Entities within the Group use forward contracts which have a maximum maturity of 12 months, to hedge their receivables and payables denominated in foreign currencies.

The Group has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. Currency exposure to the net assets of the Group's subsidiaries is managed primarily through borrowings denominated in the relevant foreign currency.

Interest rate risk

The Group borrows at variable rates and sometimes uses interest rate swaps as cash flow hedges of future interest payments which have the economic effect of converting borrowings from floating rates to fixed rates.

Credit risk

The Group has no significant concentrations of credit risk. Credit risk is the danger of non-performance by counterparties. This risk is minimised by utilising a variety of banks of high credit standing. The Group has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk

The Group has arranged unsecured committed bank facilities to ensure its liquidity at all times.

Net fair value of derivative financial instruments

	Nominal amount		Fair value	
	2003 € m	2002 € m	2003 € m	2002 € m
Fair value hedges	**298**	51	**3**	–
Cash flow hedges	**241**	216	**5**	7
Hedge of a net investment in a foreign entity	**788**	175	**49**	–
Interest rate swaps	**185**	181	**(7)**	1
Loan note swap	**19**	–	**–**	–
Embedded conversion rights associated with BAT preference shares	**–**	–	**37**	–
Secured call warrants	**–**	–	**(37)**	–

a) Nominal amount

Nominal amounts represent the following:

- Forward foreign exchange contracts: the sum of all contracts, bought or sold, outstanding at the year end;
- Foreign currency options: the sum of the amounts underlying the options outstanding at the year end;
- Interest rate swaps: the sum of the principal amounts underlying the swaps outstanding at the year end.

Foreign currency amounts have been translated to euros using the exchange rates existing at the balance sheet date.

Note 30 – Derivative financial instruments (continued)

b) Fair value of derivative financial instruments
and hedge transactions

The fair value of publicly traded derivatives, securities and investments is based on quoted market prices at the balance sheet date. In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of forward contracts and swaps, the fair value represents the net gain or loss on the contract or swap since its inception, as there is no initial outlay. In the case of options, the fair value represents the initial premium paid, adjusted for any gain or loss on the option since its inception.

Fair value hedges are foreign currency options and forward exchange contracts that are hedges of assets and liabilities already recorded in the balance sheet or that were entered into for hedging purposes but do not meet the strict criteria required under IAS 39 for them to qualify as effective hedges.

Cash flow hedges are principally average rate options and forward exchange contracts to sell foreign currencies generated by Group sales against the Swiss franc over the year ending 31 March 2004.

The hedge of a net investment in a foreign entity is the forward sale, by a Group company reporting in euro, of an amount of pounds sterling to hedge its investment in a company reporting in sterling that holds the investment in BAT. The hedge is designed to cover the Group’s share of proceeds resulting from the sale/conversion of the BAT preference shares in 2004. Interest rate and loan note swaps have been entered into to manage the risk relative to fluctuations in variable interest rates on short and medium-term lines of credit. At 31 March 2003 the weighted average interest charge of the Group was 2.6 per cent (2002: 3.0 per cent).

Note 31 – Principal Group companies

A list of the principal operating companies in the Group is given on page 17.

Note 32 – Dividend per unit

At the Annual General Meeting of Richemont SA, Luxembourg, to be held on Wednesday, 17 September 2003, a dividend of € 0.32 per unit, falls to be approved. These financial statements do not reflect this dividend payable, which will be accounted for in unitholders’ funds as an appropriation of retained earnings effected during the year ending 31 March 2004.

Note 33 – Ultimate parent company

The directors regard Compagnie Financière Rupert, Zug, Switzerland, to be the Group’s controlling party due to the fact that 50 per cent of the voting rights of the Company are held by that entity.

Note 34 – Company information

Statutory information in respect of the Company is given on page 83.

Note 35 – Post balance sheet event

On 19 May 2003, the Group sold its remaining interest in Hanover Direct, Inc. for a consideration of US$ 40 million.

REPORT OF THE GROUP AUDITORS

To the General Meeting of Shareholders of
Compagnie Financière Richemont SA, Geneva

As auditors of the Group, we have audited the consolidated financial statements on pages 43 to 67, consisting of the statement of accounting policies, consolidated profit and loss account, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and the notes to the consolidated financial statements of Compagnie Financière Richemont SA for the year ended 31 March 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing issued by the International Federation of Accountants, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows, in accordance with Swiss generally accepted accounting principles as issued by the Foundation for Accounting and Reporting Recommendations in Switzerland ("Swiss GAAP ARR") and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA
Martin Aked Clive Bellingham
Geneva, 5 June 2003

COMPANY FINANCIAL STATEMENTS

COMPAGNIE FINANCIÈRE RICHEMONT SA

RICHEMONT SA

COMPAGNIE FINANCIÈRE RICHEMONT SA

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2003

	Note	2003 SFr m	2002 SFr m
Income			
Dividend income		86.4	81.8
Interest income		14.9	11.0
Other income		5.7	7.2
		107.0	100.0
Expenses			
Interest paid		–	0.5
General expenses	3	12.9	26.4
		12.9	26.9
Profit before taxation		94.1	73.1
Taxation		1.2	0.6
Net profit		92.9	72.5

BALANCE SHEET

AT 31 MARCH 2003

	Notes	2003 SFr m	2002 SFr m
Long-term assets			
Investments	4	700.2	700.2
Property, plant and equipment	5	22.7	24.7
		722.9	724.9
Current assets			
Loans to Group companies		484.1	389.2
Debtors		0.6	0.5
Cash and cash equivalents		0.6	0.5
		485.3	390.2
		1 208.2	1 115.1
Shareholders' equity			
Share capital	6	574.2	574.2
Legal reserve	7	117.6	117.6
Reserve for own shares	8	198.3	136.0
Retained earnings	9	306.2	275.6
		1 196.3	1 103.4
Current liabilities			
Accrued expenses		9.8	9.9
Taxation		1.5	1.3
Loans from Group companies		0.6	0.5
		11.9	11.7
		1 208.2	1 115.1

COMPAGNIE FINANCIÈRE RICHEMONT SA
NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2003

Note 1 – Relocation of the Company's registered office to Geneva

The Annual General Meeting of shareholders of Compagnie Financière Richemont SA ("the Company") held on 12 September 2002 decided to relocate the registered office from Zug to Geneva and to adopt statutes in the French language.

Note 2 – Basis of preparation of the financial statements

The financial statements represent the financial position of the Company at 31 March 2003 and the results of its operations for the year then ended, prepared in accordance with Swiss law.

Note 3 – General expenses

General expenses comprise the following:

	2003 SFr m	2002 SFr m
Personnel expenses	6.1	5.1
Depreciation of property, plant and equipment	2.1	1.3
Other	4.7	20.0
	12.9	26.4

Note 4 – Investments

These comprise investments in wholly-owned subsidiary companies, which are stated at cost.

	2003 SFr m	2002 SFr m
Richemont SA, Luxembourg	700.0	700.0
Other investments	0.2	0.2
	700.2	700.2

Note 5 – Property, plant and equipment

Excluding land, the net book value of property, plant and equipment at 31 March 2003 was SFr 15.0 million (2002: SFr 17.1 million). The fire insurance value of property, plant and equipment at 31 March 2003 was SFr 22.8 million (2002: SFr 22.8 million).

Note 6 – Share capital

	2003 SFr m	2002 SFr m
522 000 000 "A" bearer shares with a par value of SFr 1.00 each, fully paid	522.0	522.0
522 000 000 "B" registered shares with a par value of SFr 0.10 each, fully paid	52.2	52.2
	574.2	574.2

Note 7 – Legal reserve

The legal reserve of SFr 117.6 million (2002: SFr 117.6 million) is not available for distribution.

Note 8 – Reserve for own shares

A Richemont "A" unit is composed of one "A" bearer share issued by the Company and one participation certificate issued by Richemont SA. At the time of formation of Richemont, 25 per cent of the value of an "A" unit was attributed to the "A" bearer share issued by the Company and 75 per cent to the participation certificate issued by Richemont SA. In terms of the reserve for own shares established in respect of the units repurchased, an amount of SFr 62.3 million, being 25 per cent of the cost of units acquired net of the cost of units sold to Group executives during the year, has been transferred to the reserve for own shares (2002: SFr 9.8 million transferred from the reserve for own shares). The balance of the cost of net units purchased has been transferred to a reserve in respect of the participation certificates repurchased in the balance sheet of Richemont SA.

During the year the Group purchased 1 500 000 (2002: 2 000 000) "A" units for a total consideration of SFr 45.1 million (2002: SFr 76.5 million) in order to hedge obligations under the Group's stock option plan. A further 5 525 840 units were repurchased from executives. The majority of these units were repurchased as part of the unwinding of the Group's unit purchase scheme.

During the year an additional 67 940 (2002: 2 801 400) "A" units were sold to executives of the Group under the Group's executive unit purchase scheme and stock option plan.

As at 31 March 2003 the Group held 23 419 000 (2002: 16 461 100) Richemont "A" units.

The Company has, jointly with Richemont SA, granted to executives resident in the United States a total of 1 197 950 options. Each option entitles the executive to purchase one Richemont "A" unit. These options have an average exercise price of SFr 23.25, vest over periods of three to five years and typically have expiry dates of between six and ten years from the date of grant.

COMPAGNIE FINANCIÈRE RICHEMONT SA
NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2003

Note 8 – Reserve for own shares (continued)

In order to hedge the obligations in respect of these options the Company has, since the year end, jointly with Richemont SA, entered into arrangements to purchase, from a Group company, an equivalent number of call options on the same terms and conditions as those granted to executives.

Note 9 – Retained earnings

	2003 SFr m	2002 SFr m
Balance at 1 April of prior year retained earnings	275.6	193.3
Net transfer (to)/from reserve for own shares	(62.3)	9.8
Balance at 1 April, after appropriations	213.3	203.1
Net profit	92.9	72.5
Balance at 31 March	306.2	275.6

Note 10 – Contingent liabilities

The directors believe that there are no contingent liabilities arising in the ordinary course of the business.

At 31 March 2003 the Company had given guarantees totalling SFr 1 154.3 million (2002: SFr 1 676.6 million) in respect of which it had received indemnities from subsidiaries in the same amount. Obligations of various Group companies under these facilities amounted to SFr 127.0 million at 31 March 2003 (2002: SFr 612.8 million). The Company does not foresee any liability arising under these guarantees and, therefore, no provision has been made.

Note 11 – Significant shareholders

Pursuant to the requirements of the Swiss Federal Act on Stock Exchanges and Securities Trading and the associated ordinances, the Company has received formal notification from Compagnie Financière Rupert, Zug that it holds 522 000 000 "B" registered shares, representing 50.0 per cent of the voting rights in the Company. In addition, Compagnie Financière Rupert has advised that parties related to it hold or control 4 686 900 "A" bearer shares (either directly or through the medium of South African Depositary Receipts), representing 0.45 per cent of the voting rights in the Company.

Also pursuant to the requirements of the Swiss Federal Act on Stock Exchanges and Securities Trading and the associated ordinances, the Company has received formal notification on 10 January 2003 from The Capital Group Companies Inc., of Los Angeles, that companies under its control hold 52 501 787 "A" bearer shares, representing 5.03 per cent of the voting rights in the Company.

Richemont Securities SA, a wholly-owned subsidiary of the Company, acts as depositary in respect of Richemont South African Depositary Receipts ("DR's"), which are traded on the JSE Securities Exchange South Africa. Following the split of Richemont units effected on 12 November 2001 and the consolidation of the DR "A" unit ratio effected on the same date, DR's trade in the ratio of ten DR's to each Richemont "A" unit. In its capacity as depositary and on behalf of the holders of DR's, Richemont Securities SA holds one "A" unit in safe custody for every ten DR's in issue. Richemont Securities SA's interest is therefore non-beneficial in nature.

All dividends attributable to the "A" units held in safe custody are remitted by Richemont Securities SA individually to holders of DR's and Richemont Securities SA acts as the approved representative of each DR holder in voting at shareholders' meetings of the Company. DR holders provide Richemont Securities SA with voting instructions as to their holdings of DR's and Richemont Securities SA may only vote on behalf of those DR holders from whom it has received such instructions.

At 31 March 2003, Richemont Securities SA held 193 839 000 Richemont "A" units, representing some 37 per cent of the "A" units, in safe custody in respect of DR's in issue.

COMPAGNIE FINANCIÈRE RICHEMONT SA

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF RETAINED EARNINGS

AT 31 MARCH 2003

	SFr m
Available retained earnings	
Balance at 1 April 2002	275.6
Net transfer to reserve for own shares	(62.3)
Net profit	92.9
	306.2

Proposed appropriation

The Board of Directors proposes that the available retained earnings of SFr 306.2 million be carried forward.

The Board of Directors
4 June 2003

COMPAGNIE FINANCIÈRE RICHEMONT SA

REPORT OF THE STATUTORY AUDITORS

Report of the statutory auditors to the general meeting
of Compagnie Financière Richemont SA, Geneva

As statutory auditors, we have audited the financial statements (balance sheet, income statement and notes) of Compagnie Financière Richemont SA for the year ended 31 March 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position and results of operations in accordance with Swiss GAAP ARR and comply with Swiss law.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA
Martin Aked Clive Bellingham
Geneva, 5 June 2003

RICHEMONT SA
SOCIÉTÉ ANONYME HOLDING
DIRECTORS' REPORT

The Board of Directors of Richemont SA ("the Company") is pleased to submit its report on the activities of the Company for the year ended 31 March 2003. The following financial statements set out the financial position of the Company and the results of its operations for the year then ended.

STATEMENT OF ACCOUNTING POLICIES

(A) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, are in accordance with Luxembourg legal and regulatory requirements and are presented in euros.

(B) FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies during the year are recorded at exchange rates ruling at the time the transactions take place. Monetary assets and liabilities, expressed in currencies other than the euro, are translated at exchange rates ruling at the year end. The resulting exchange gains or losses are credited or charged to the profit and loss account for the year.

(C) INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

Investments in subsidiary undertakings are stated at cost less amounts written off for diminutions in value which are considered to be of a permanent nature. Dividend income is recognised upon declaration by the subsidiary undertaking concerned.

RICHEMONT SA

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 MARCH 2003

	2003 € m	2002 € m
Income		
Dividend income	393.5	226.2
Expenses		
General expenses	2.9	3.1
Profit before taxation	390.6	223.1
Taxation	0.3	0.4
Net profit	390.3	222.7

BALANCE SHEET

AT 31 MARCH 2003

	Notes	2003 € m	2002 € m
Long-term assets			
Investments	*2*	3 206.7	3 206.7
Current assets			
Loans to Group companies	*3*	219.4	150.3
Cash and cash equivalents		0.5	0.5
		219.9	150.8
		3 426.6	3 357.5
Shareholders' equity			
Share capital	*5*	215.0	215.0
Participation reserve	*6*	645.0	645.0
Legal reserve	*7*	21.5	21.5
General reserve	*8*	427.0	427.0
Reserve for own participation certificates	*9*	384.9	258.0
Retained earnings	*10*	413.2	392.7
		2 106.6	1 959.2
Current liabilities			
Loans from Group companies	*3*	1 225.0	1 374.8
Borrowings	*4*	94.4	23.0
Accrued expenses		0.6	0.5
		1 320.0	1 398.3
		3 426.6	3 357.5

RICHEMONT SA

NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2003

Note 1 – Company information

Richemont SA is a Luxembourg holding company, incorporated on 5 March 1979. It is a wholly-owned subsidiary of Compagnie Financière Richemont SA, Geneva, Switzerland.

Note 2 – Investments

These comprise investments in subsidiary companies, which are stated at cost.

Note 3 – Loans to and from Group companies

The loans to and from Group companies are principally interest free and are repayable on demand.

Note 4 – Borrowings

These borrowings are dematerialised treasury notes issued under a Commercial Paper Programme which allows the Company, using a bank as intermediary, to borrow up to € 100.0 million for a duration of less than one year in the European retail market.

Note 5 – Share capital

	2003 € m	2002 € m
Issued and fully paid		
1 914 000 shares of no par value	215.0	215.0

Note 6 – Participation reserve

	2003 € m	2002 € m
Reserve established in respect of 574 200 000 participation certificates with no par value	645.0	645.0

The Company has set aside a participation reserve amounting to € 645.0 million and issued, in respect of this reserve, 522 000 000 (2002: 522 000 000) bearer non-voting participation certificates with no par value and 52 200 000 (2002: 52 200 000) registered non-voting participation certificates with no par value. Bearer and registered participation certificates have identical rights.

Note 7 – Legal reserve

The legal reserve amounting to € 21.5 million (2002: € 21.5 million) is not available for distribution.

Note 8 – General reserve

The general reserve amounting to € 427.0 million (2002: € 427.0 million) is available for distribution subject to the approval of the shareholders.

RICHEMONT SA

NOTES TO THE FINANCIAL STATEMENTS

AT 31 MARCH 2003

Note 9 – Reserve for own participation certificates

A Richemont "A" unit is composed of one "A" bearer share issued by Compagnie Financière Richemont SA and one participation certificate issued by the Company. At the time of formation of Richemont, 25 per cent of the value of an "A" unit was attributed to the "A" bearer share issued by Compagnie Financière Richemont SA and 75 per cent to the participation certificate issued by the Company. In terms of the reserve for own participation certificates established in respect of the units repurchased, an amount of € 126.9 million, being 75 per cent of the cost of units acquired net of the cost of units sold to Group executives during the year, has been transferred to the reserve for own participation certificates (2002: € 18.8 million transferred from the reserve for own participation certificates). The balance of the cost of net units purchased has been transferred to a reserve in respect of the shares repurchased in the balance sheet of Compagnie Financière Richemont SA.

During the year the Group purchased 1 500 000 (2002: 2 000 000) "A" units for a total consideration of € 31.0 million (2002: € 52.1 million) in order to hedge obligations under the Group's stock option plan. A further 5 525 840 units were repurchased from executives. The majority of these units were repurchased as part of the unwinding of the Group's unit purchase scheme.

During the year an additional 67 940 (2002: 2 801 400) "A" units were sold to executives of the Group under the Group's executive unit purchase scheme and stock option scheme.

Following these transactions the Group holds 23 419 000 (2002: 16 461 100) Richemont "A" units.

The Company has, jointly with Compagnie Financière Richemont SA, granted to executives resident in the United States a total of 1 197 950 options. Each option entitles the executive to purchase one Richemont "A" unit. These options have an average exercise price of SFr 23.25, vest over periods of three to five years and typically have expiry dates of between six and ten years from the date of grant.

In order to hedge the obligations in respect of these options the Company has, since the year end, jointly with Compagnie Financière Richemont SA, entered into arrangements to purchase, from a Group company, an equivalent number of call options on the same terms and conditions as those granted to executives.

Note 10 – Retained earnings

	2003 € m	2002 € m
Balance at 1 April of prior year retained earnings before appropriation	392.7	378.7
Dividend paid on share capital	(59.1)	(55.2)
Dividend paid on participation reserve	(183.8)	(172.3)
Balance at 1 April, after appropriation	149.8	151.2
Net transfer (to)/from reserve for own participation certificates	(126.9)	18.8
Net profit	390.3	222.7
Balance at 31 March	413.2	392.7

The retained earnings at 31 March are stated before the proposed appropriation as set out below.

Note 11 – Contingent liabilities

The directors believe that there are no contingent liabilities arising in the ordinary course of the business.

At 31 March 2003 the Company had given guarantees totalling € 1 137.3 million (2002: € 1 673.1 million) to cover obligations of various Group companies amounting to € 164.3 million (2002: € 629.7 million). The Company does not foresee any liability arising under these guarantees and, therefore, no provision has been made.

RICHEMONT SA

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE APPROPRIATION OF RETAINED EARNINGS

AT 31 MARCH 2003

	€ m
Available retained earnings	
Balance at 1 April 2002 after appropriation	**149.8**
Net transfer to reserve for own participation certificates	**(126.9)**
Net profit	**390.3**
	413.2
Proposed appropriation	
Dividend payable on share capital	**59.1**
Dividend payable on participation reserve	**183.8**
Balance to be carried forward	**170.3**
	413.2

The proposed dividend on the share capital will be payable to Compagnie Financière Richemont SA, Geneva.

The proposed dividend on the participation reserve amounts to € 0.32 per participation certificate. It will be payable to unit holders of Richemont on 29 September 2003 in respect of coupon number 2, free of charges, at the banks designated as paying agents.

The Board of Directors
2 June 2003

Richemont SA
Société Anonyme Holding
Report of the Statutory Auditors

To the Shareholders of
Richemont SA, Luxembourg

We have audited the accompanying annual accounts of Richemont SA, société anonyme holding, for the year ended 31 March 2003. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts' presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying annual accounts give, in conformity with Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Richemont SA, société anonyme holding, as of 31 March 2003 and of the results of its operations for the year then ended.

PricewaterhouseCoopers Sàrl
Statutory auditors
represented by Luc Henzig
Réviseur d'Entreprises
Luxembourg, 5 June 2003

FIVE YEAR RECORD

PROFIT AND LOSS ACCOUNT

	1999 € m	2000 € m	2001 € m	2002 € m	2003 € m
Sales	2 318	2 924	3 684	3 860	**3 651**
Cost of sales	(840)	(995)	(1 216)	(1 382)	**(1 367)**
Gross profit	1 478	1 929	2 468	2 478	**2 284**
Net operating expenses	(1 088)	(1 395)	(1 756)	(1 996)	**(2 025)**
Operating profit	390	534	712	482	**259**
Net investment income/(expense)	(15)	(21)	8	(46)	**(56)**
Profit before taxation	375	513	720	436	**203**
Taxation	(113)	(152)	(191)	(107)	**(50)**
Profit after taxation	262	361	529	329	**153**
Minority interests	(2)	(3)	(1)	2	**3**
Net profit of the parent and its subsidiaries	260	358	528	331	**156**
Share of results of associated undertakings	415	425	440	495	**486**
Tobacco	428	430	473	495	**486**
Pay television	(2)	3	–	–	**–**
Direct retailing	(11)	(8)	(33)	–	**–**
Net profit	675	783	968	826	**642**
Gross profit margin	63.8%	66.0%	67.0%	64.2%	**62.6%**
Operating profit margin	16.8%	18.3%	19.3%	12.5%	**7.1%**
Effective taxation rate	30.2%	29.7%	26.5%	24.5%	**24.7%**

Basis of preparation

1. The profit and loss account is presented on an adjusted basis excluding the effect of exceptional items and goodwill amortisation. A reconciliation to the results presented on a reported basis is given on page 82.

2. The results for the year 1999 have been restated to include the results of the Group's tobacco interests on an equity accounted basis, thereby facilitating a comparison of the results of the Group's luxury goods businesses over the period. Up to 31 March 1999, the Group's share of associated undertakings' operating results, goodwill amortisation, net investment income/(expense), taxation and minority interests were included in the respective lines within the consolidated profit and loss account. The above table has been restated to reflect the Group's share of associated undertakings' attributable profit in one line.

3. The results for 2002 and 2003 have been restated following the change in accounting policy with respect to goodwill arising on the acquisition of subsidiary undertakings.

FIVE YEAR RECORD

ANALYSIS OF SALES

	1999 € m	2000 € m	2001 € m	2002 € m	2003 € m
Sales by product line					
Jewellery	473	667	877	860	**815**
Watches	999	1 293	1 653	1 794	**1 705**
Leather goods	224	267	312	303	**270**
Writing instruments	206	234	263	285	**277**
Clothing and other	416	463	579	618	**584**
	2 318	2 924	3 684	3 860	**3 651**
Sales by geographic region					
Europe	1 059	1 203	1 508	1 710	**1 558**
Asia	791	1 116	1 436	1 454	**1 400**
Americas	468	605	740	696	**693**
	2 318	2 924	3 684	3 860	**3 651**
Sales by distribution channel					
Retail	900	1 272	1 647	1 590	**1 496**
Wholesale	1 418	1 652	2 037	2 270	**2 155**
	2 318	2 924	3 684	3 860	**3 651**

EXCHANGE RATES

	1999	2000	2001	2002	2003
Average rates					
€ : US$	1.1353	1.0318	0.9070	0.8848	**0.9947**
€ : Yen	145.21	114.53	100.38	110.64	**121.03**
€ : SFr	1.6277	1.6031	1.5389	1.4960	**1.4651**
€ : £	0.6839	0.6403	0.6137	0.6176	**0.6429**

Note

For the year to 31 March 1999 the average rate is calculated using the average weekly closing ecu rate for the nine months to 31 December 1998 as quoted by Reuters and the average weekly closing euro rate for the three months to 31 March 1999 as quoted by Reuters. For the years ended 31 March 2000 to 31 March 2003, actual euro exchange rates have been used.

FIVE YEAR RECORD

CASH FLOW FROM OPERATIONS

	1999 € m	2000 € m	2001 € m	2002 € m	2003 € m
Operating profit	390	534	712	482	259
Depreciation and amortisation	61	84	110	133	150
Earnings before interest, tax, depreciation and amortisation (EBITDA)	451	618	822	615	409
Other non-cash items	(1)	4	25	46	78
(Increase)/decrease in working capital	(155)	37	(270)	(375)	69
Cash inflow from operating activities	295	659	577	286	556
Capital expenditure	(75)	(150)	(230)	(308)	(180)
Net cash inflow/(outflow) from operating activities	220	509	347	(22)	376

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1999 € m	2000 € m	2001 € m	2002 € m	2003 € m
Reconciliation of net profit					
On a reported basis	473	2 982	1 264	608	728
Goodwill amortisation	202	277	384	200	186
Gain on disposal of Vivendi interest	–	–	(533)	–	–
Gain arising on BAT preference shares	–	–	(189)	–	(301)
Share of BAT exceptional items	–	106	42	18	–
Gain on Rothmans International/BAT merger	–	(2 582)	–	–	–
Write down of Hanover Direct preference shares	–	–	–	–	29
On an adjusted basis	675	783	968	826	642

PER UNIT INFORMATION

	1999	2000	2001	2002	2003
Earnings per unit excluding exceptional items and goodwill amortisation					
– basic	€ 1.176	€ 1.384	€ 1.737	€ 1.479	€ 1.154
– fully diluted	€ 1.176	€ 1.370	€ 1.714	€ 1.463	€ 1.141
Earnings per unit including exceptional items and goodwill amortisation					
– basic	€ 0.824	€ 5.273	€ 2.269	€ 1.089	€ 1.309
– fully diluted	€ 0.824	€ 5.201	€ 2.231	€ 1.083	€ 1.290
Dividend per unit – as declared in sterling	£ 0.135	–	–	–	–
– in euros (Note 1)	€ 0.197	€ 0.240	€ 0.300	€ 0.320	€ 0.320

Note 1

In the year 1999 the dividend per unit expressed in euros has been calculated using the average ecu/euro : sterling exchange rate for the relevant financial year as set out on page 81. The euro equivalent on the actual date of payment of the £ 0.135 in respect of the financial year ended 31 March 1999 was € 0.208. Dividends in respect of the financial year ended 31 March 2000 and following years are denominated in euros.

STATUTORY INFORMATION

COMPAGNIE FINANCIÈRE RICHEMONT SA

Registered office:	8 Boulevard James-Fazy 1201 Geneva Switzerland Tel: (+41) (0) 22 715 3500 Fax: (+41) (0) 22 715 3550
Auditors:	PricewaterhouseCoopers SA Avenue Giuseppe-Motta 50 1202 Geneva Switzerland

RICHEMONT SA

Registered office:	35 Boulevard Prince Henri L-1724 Luxembourg Tel: (+352) 22 42 10 Fax: (+352) 22 42 19
Auditors:	PricewaterhouseCoopers Sàrl 400, route d'Esch L-1471 Luxembourg

Shares of Compagnie Financière Richemont SA are indivisibly twinned with participation certificates issued by its wholly-owned subsidiary Richemont SA to form Richemont units. Richemont units are listed on the Swiss Stock Exchange and traded on the virt-x market (Reuters 'RIFZ.VX'/Bloombergs 'CFR VX') and are included in the Swiss Market Index ('SMI') of leading stocks. Depositary receipts in respect of Richemont units are traded on the JSE Securities Exchange South Africa (Reuters 'RCHJ.J'/Bloombergs 'RCH SJ'); American Depositary Receipts are traded over the counter in New York.

Internet:	www.richemont.com investor_relations@richemont.com secretariat@richemont.com

NOTICE OF MEETING

The Annual General Meeting of shareholders of Compagnie Financière Richemont SA will be held at 10.00 am in the "Grande Salle", Hotel des Bergues, 33 Quai des Bergues, 1201, Geneva on Wednesday, 17 September 2003.

AGENDA

1. Business Report

The Board of Directors proposes that the General Meeting, having taken cognisance of the reports of the auditors, approve the consolidated financial statements of the Group, the financial statements of the Company and the directors' report for the business year ended 31 March 2003.

2. Appropriation of profits

The Board of Directors proposes that the available retained earnings of the Company at 31 March 2003 of SFr 306 200 000 be carried forward to the following business year.

3. Discharge of the Board of Directors

The Board of Directors proposes that its members be discharged from their obligations in respect of the business year ended 31 March 2003.

4. Election of the Board of Directors

The Board of Directors proposes that the following members be re-elected to serve for a further term of one year: Johann Rupert, Jean-Paul Aeschimann, Dr Franco Cologni, Jan du Plessis, Leo Deschuyteneer, Lord Douro, Yves-André Istel, Joseph Kanoui, Alan Quasha, Lord Renwick of Clifton and Ernst Verloop. The Board further proposes that Mr Alain Dominique Perrin, Mr Simon Murray and Mr Jürgen Schrempp be elected to the board.

5. Election of the Auditors

The Board of Directors proposes that PricewaterhouseCoopers be re-appointed for a further term of one year as auditors of the consolidated financial statements of the Group and of the financial statements of the Company.

The financial statements of the Group and of the Company along with the related reports of the Auditors together with the Directors' Report for the year ended 31 March 2003 will be available for inspection at the registered office of the Company from 25 August 2003 onwards. A copy of the financial statements, reports of the auditors and the directors' report, which are contained in the Richemont Annual Report 2003, will be sent to shareholders upon request.

Cards for admission to the Annual General Meeting together with voting forms may be obtained by holders of bearer shares, upon deposit of their share certificates, from any branch of the following banks up to 11 September 2003: UBS AG, Lombard Odier Darier Hentsch & Cie, Bank J Vontobel & Co AG, Pictet & Cie and Bank von Ernst & Cie AG.

Deposited shares will be blocked until the close of the meeting. No admission cards will be issued on the day of the meeting itself.

A shareholder may appoint a proxy, who need not be a shareholder, as his or her representative at the meeting. Forms of proxy are provided on the reverse of the admission cards. In accordance with Swiss law, each shareholder may be represented at the meeting by the Company, by a bank or similar institution or by Mr Georges Fournier, Etude Poncet et Buhler, Notaires, 6 rue de Candolle, CH-1205 Genève, as independent agent. Unless proxies include explicit instructions to the contrary, voting rights will be exercised in support of the proposals of the Board of Directors.

Depository agents, as defined in Article 689d of the Swiss Company Law, are requested to indicate to the Company, as soon as possible and in any event to the admission control prior to the commencement of the meeting, the number and par value of the shares they represent together with the reference numbers of the relevant admission cards. Institutions subject to the Swiss Federal Act on Banks and Savings Banks of 8 November 1934 and professional fund managers and trustees may be considered as depository agents.

For the Board of Directors

Johann Rupert	Jan du Plessis
EXECUTIVE CHAIRMAN	GROUP FINANCE DIRECTOR

Designed and produced by RARE Corporate Design and Publishing, London.