

26 May 2010

## **Burberry Group plc**

### **Preliminary results for the year ended 31 March 2010**

Burberry Group plc, the global luxury company, today announces its results for the year ended 31 March 2010.

#### **Highlights**

- Sales up 7% to £1,280m
- Adjusted profit before tax up 23% to £215m
- Adjusted retail/wholesale profit up 25% to £138m
  - Gross margin up 760 basis points
  - Operating margin of 11.6%
- Inventory down 36%, despite 9% space increase
- Net cash of £262m
- Adjusted diluted earnings per share up 16% to 35.1p
- Full year dividend up 17% to 14.0p
- Plans to accelerate investment in 2010/11 while further enhancing the brand
  - 20-30 new stores, biased towards the Americas and Asia Pacific
  - Focus investment in digital commerce, key product categories and Emerging Markets
  - Increase capital expenditure to around £130m

Angela Ahrendts, Chief Executive Officer, commented:

“Burberry has delivered record profits in what have been very challenging markets. Our outstanding team, the consistent execution of our strategies and our brand momentum have once again enabled us to gain share in the luxury market.

Looking forward, while mindful of the economic environment, Burberry plans to build on its strong financial position by accelerating investment in growth initiatives in retail, digital and new markets, while continuing to enhance the brand.”

Throughout this announcement, “adjusted” refers to profitability measures (pre and post tax) calculated excluding:

1. Restructuring costs of £48.8m in 2010 (2009: £54.9m) relating to the Spanish restructuring and the Group’s cost efficiency programme
2. Impairment charges of £129.6m in 2009 relating to Spanish goodwill (£116.2m) and stores (£13.4m)
3. Credit of £1.7m in 2009 representing negative goodwill on the formation of the Burberry Middle East joint venture
4. Impact of deferred tax write-off in 2010 (£39.6m, comprising £27.3m of prior years’ assets and £12.3m of 2009/10 tax losses not recognised) and one-off tax credits in 2009 (£32.6m)
5. Net charge of £7.9m in 2009 relating to the relocation of global headquarters

Underlying change is calculated at constant exchange rates.

Certain financial data within this announcement have been rounded.

## **Enquiries**

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There will be a presentation today at 9am (UK time) to investors and analysts at the Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ. The presentation can be viewed live on the Burberry website ([www.burberryplc.com](http://www.burberryplc.com)) and can also be accessed live via a dial-in facility on 44 (0)20 3037 9083. The supporting slides and an indexed replay will also be available on the website later in the day.

Burberry will update on trading on 13 July 2010 when it will issue its Interim Management Statement in respect of the First Quarter. The AGM will be held on 15 July 2010.

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future results in forward-looking statements.

This announcement does not constitute an invitation to underwrite, subscribe for or otherwise acquire or dispose of any Burberry Group plc shares. Past performance is not a guide to future performance and persons needing advice should consult an independent financial adviser.

## GROUP FINANCIAL HIGHLIGHTS

**Revenue of £1,280m, up 7% reported, up 1% underlying**, with a stronger performance in the second half (up 6% underlying). Exchange rates benefited revenue by £65m in the full year

**Retail sales up 15% underlying**, contributing 58% of group sales (2009: 52%)

**Adjusted retail/wholesale operating margin up to 11.6%** (2009: 9.8%), as gross margin recovered by 760bp and operating expenses were 48.1% of sales as guided, reflecting mix shift to retail

**Adjusted profit before tax up 23% to £214.8m** (2009: £174.6m), including an exchange rate benefit of £16.2m

**Tax rate on adjusted profit before tax of 27.4%** (2009: 23.8%), in line with guidance

**Adjusted diluted earnings per share up 16% to 35.1p** (2009: 30.2p)

**Full year dividend per share increased by 17% to 14.0p** (2009: 12.0p), reaffirming 40% dividend payout ratio

**Net cash of £262.0m** (2009: £7.6m), driven by 36% reduction in inventory and tight working capital management

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Revenue	1,279.9	1,201.5	7	1
Cost of sales	(475.9)	(535.7)	11	
Gross margin	804.0	665.8	21	
Adjusted operating expenses	(584.1)	(485.0)	(20)	
<b>Adjusted operating profit</b>	<b>219.9</b>	<b>180.8</b>	<b>22</b>	<b>13</b>
Exceptional items*	(48.8)	(190.7)		
<b>Operating profit/(loss)</b>	<b>171.1</b>	<b>(9.9)</b>		
Net finance charge	(5.1)	(6.2)		
<b>Profit/(loss) before taxation</b>	<b>166.0</b>	<b>(16.1)</b>		
Taxation	(83.8)	11.0		
Minority interests	(0.8)	(0.9)		
Attributable profit/(loss)	81.4	(6.0)		
<b>Adjusted EPS (pence)</b>	<b>35.1</b>	<b>30.2</b>		
EPS (pence)	18.4	(1.4)		
Weighted average number of ordinary shares (millions)	441.9	438.1		

\* See Exceptional items section for full details  
EPS is calculated on a diluted basis

## BUSINESS AND FINANCIAL REVIEW

### 2009/10 review

In 2009/10, Burberry increased adjusted profit before tax by 23%. It continued to invest in the brand and in consumer-facing initiatives to drive growth, while acting swiftly to manage costs tightly, improve efficiencies and generate cash.

#### *Leveraging the franchise*

- **Burberry continued to purify the brand**, restructuring Spain to prepare for the move to the global collection, closing inappropriate wholesale accounts in Europe, amending the Japanese apparel licence and terminating menswear and Japanese leather goods licences. An iconic pricing policy was implemented from the second half, ensuring that heritage products, such as rainwear and cashmere scarves, are never marked down.
- **The re-labelling of Burberry London (wear to work) and Burberry Brit (casual)** from Spring/Summer 2010 brought greater clarity to the product assortment, marketing and in-store merchandising. Early results from the trial standalone Burberry London and Burberry Brit stores in New York are encouraging. A further three Burberry Brit stores are planned in 2010/11 – two of which will be in New York – again clustering investment in major markets. The initial wholesale response was also strong, with the two labels now justifying separate shop-in-shops in key accounts.
- **Total marketing spend as a percentage of sales was held, with a larger proportion again shifted to digital marketing.** Burberry's innovative digital initiatives are increasing brand awareness and reach, attracting new customers to the brand. Burberry now has over one million Facebook fans and its social media site, [artofthetrench.com](http://artofthetrench.com), has received over seven million page views since its launch in November 2009.

#### *Intensifying non-apparel development*

- **Non-apparel was again the fastest growing product category, up 10% underlying, to 36% of retail/wholesale revenue (2009: 33%).** Growth in large leather goods, the core of non-apparel, was complemented by an intensified focus on soft accessories, further product development in shoes and broadening of the men's assortment.
- **The Japanese non-apparel joint venture**, which now sells the global luxury collection into this market for the first time, made good progress, further strengthening the management team and opening regional headquarters in Tokyo. Two flagship stores are now open in Tokyo (Omotesando and Ginza), as well as nine concessions in prestige department stores with appropriate luxury adjacencies. The non-renewal of the premium domestic Japanese leather goods licence will eliminate customer confusion created by having two differently positioned ranges in the market. Up to ten new concessions are planned in 2010/11.

### ***Accelerating retail-led growth***

- **Retail accounted for 58% of sales, up from 52% last year.**
- **Burberry further improved the quality of its store portfolio**, opening 21 mainline stores in the year and closing nine. Between 20-30 new mainline stores are planned for 2010/11, biased towards the Americas and Asia Pacific. The number of outlet stores will be reduced over time as improved assortments, planning and supply chain disciplines will result in less excess inventory.
- **Burberry continued to drive sales productivity**, with comparable store sales growth of 7% in the year, helped by the Burberry Experience sales and service programme. The store refurbishment programme, which was curtailed at the start of 2009/10, will be accelerated in 2010/11 to renovate major stores such as Boston, Las Vegas and Geneva.
- **Digital commerce, although small, grew by 60% in the year**, with a new global platform being introduced later in 2010.
- **A small capsule, April Showers, was developed** as part of Burberry's retail-led strategy to deliver new products more frequently to customers. The capsule was designed in late January, bought centrally and exclusively for retail stores and digital commerce, and delivered to stores in late April.

### ***Investing in under-penetrated markets***

- **Sales in Emerging Markets grew by over 20% in the year, accounting for 10% of sales** (up from 9% in 2008/09). China, the Middle East and Turkey were strong markets.
- **Burberry increased its direct operations in selected Emerging Markets**, forming a joint venture in India (currently three stores in Delhi, Bangalore and Hyderabad, with an imminent opening in Mumbai). A regional office was established in São Paulo ahead of planned store openings in Central and South America. The first store opened in Brasilia in April 2010. New franchise agreements were signed in Lebanon and Mongolia during the year.
- **US wholesale recovered in the second half** and with strong retail sell-through in the department stores, the Autumn/Winter 2010 order book is showing growth well in excess of 20%.

### ***Pursuing operational excellence***

- **The global cost efficiency programme announced in January 2009 was fully implemented**, resulting in annual savings approaching £50m.
- **SAP was deployed** in the US in April 2009 and Korea and others parts of Asia in May 2010. About 90% of retail stores are now on SAP. The European distribution hub was also successfully converted in April 2010.
- **Tighter assortments, improved planning and the global buy initiative all helped reduce year-end inventory by 36% to £167m.** Enhanced replenishment and assortment processes contributed to gross margin improvement.

## 2010/11 outlook

**In 2010/11, while mindful of economic uncertainties, Burberry plans to optimise the brand and business momentum and capitalise on its strong financial position. Investment in growth initiatives is planned to accelerate, while further actions will be taken to enhance the brand.**

- **Capital expenditure is planned at around £130m in 2010/11** (2009/10: £70m), with the increase roughly equally split between:
  - **catch-up spend on refurbishments** previously put on hold
  - **more new stores**, with the increase largely outside traditional regions
  - **investment** to support digital commerce (both content and technology) and further supply chain improvements.
- **Start-up losses are planned to increase by about £5m** as Burberry builds its presence in new geographical regions, including Brazil, Mexico, India and the Japanese non-apparel joint venture.
- **Increased investment through the income statement is planned** in areas such as
  - **digital commerce**, to build a global platform for online sales and enhance digital marketing and content capabilities
  - **sales and service**, including the addition of client services for VIP customers in thirty stores this year
  - **product divisions**, for expertise in emerging growth categories including childrenswear, shoes, denim and men's accessories.
- **Brand enhancing initiatives will reduce profits by between £5-10m**, as licences are stopped and inappropriate wholesale accounts and outlets closed.
- **The restructuring in Spain will lead to a trading loss of about £10m in 2010/11**, compared to breakeven in 2009/10. As announced in February 2010, Burberry is restructuring its Spanish operations. The global collection will be introduced from Spring/Summer 2011 across all channels in Spain. The local collection will cease after Autumn/Winter 2010, necessitating the closure of the Barcelona facility, with the loss of approximately 300 jobs. Burberry is currently working with its customers to determine the appropriate distribution strategy for the global collection. Further financial details are given later in the announcement.

## Revenue analysis

### Revenue by channel

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Retail	748.8	629.7	19%	15%
Wholesale	433.6	489.2	(11%)	(15%)
Licensing	97.5	82.6	18%	(6%)
Total	1,279.9	1,201.5	7%	1%

### Retail

*58% of revenue (2009: 52%); generated from 131 mainline stores, 262 concessions within department stores, 47 outlets and digital commerce in 27 countries*

Retail sales increased by 15% on an underlying basis (19% reported). Comparable store sales increased by 7%, with new space, including Burberry Middle East, contributing the balance.

Comparable store sales growth increased from +2% in the first half to +10% in the second half, as the luxury market improved. Strong full price sell-through of both Autumn/Winter 2009 and Spring/Summer 2010 ranges was aided by product innovation, improved planning and earlier deliveries into stores to meet higher than anticipated consumer demand. Digital media drove traffic to the stores, while the Burberry Experience sales and service programme helped conversion rates. Non-apparel and childrenswear grew strongly and outerwear performed well.

There was double-digit comparable store sales growth in Europe and Asia Pacific. Retail stores in London continued to benefit from favourable currency movements and increased tourism. Italy, the second largest European retail market, also performed well. In Hong Kong, mainland Chinese tourism increased and the Ocean Centre store was refurbished. Korea, the largest retail market in Asia Pacific, sustained good growth rates for a second year, helped by favourable currency movements. Taiwan and Malaysia also performed well.

Comparable store sales in the Americas were down by a double-digit percentage in the first half but up mid single-digit in the second half, as footfall improved, especially in the fourth quarter. The New York flagship store was refurbished during the year, using the new concept and high productivity fixtures and fittings.

During the year, Burberry further improved the quality of its store portfolio – closing nine mainline stores (mainly in Europe and Spain) and opening 21. Eight new stores were opened in Asia Pacific, with the first flagship in Singapore and a second childrenswear store in Hong Kong. Six stores were opened in the Americas, including two in Toronto (an example of clustering investment in major cities), as well as test standalone Burberry London and Burberry Brit stores on Madison Avenue, New York. In Europe, new stores were opened in Amsterdam, Venice and Paris. A net nine concessions were opened, mainly in Korea.

Net selling space at 31 March 2010 was roughly 890,000 square feet, with an average increase of 9% year-on-year (H1: +12%; H2: +6%, mainly reflecting the impact in the second half of store closures undertaken as part of the global cost efficiency programme).

### **Wholesale**

*34% of revenue (2009: 41%); generated from sales to prestige department stores, multi-brand specialty accounts, Emerging Market franchisees and Travel Retail*

Wholesale revenue in the year declined by 11% reported, down 15% underlying (H1: -23%; H2: -6%).

Sales of the global collection in the year were down a low single-digit percentage, improving to up mid single-digit percentage in the second half, led by Emerging Markets, the Americas and Travel Retail. These trends exclude the impact of Burberry's own actions, such as the closure of Thomas Burberry, continued significant weakness in Spain (which has been selling a domestic collection unique to that market) and the rationalisation of certain specialty accounts in Europe which did not meet brand requirements. Although European specialty accounts are a profitable channel, a further reduction of 10% or so is expected in 2010/11.

Burberry continues to gain share in wholesale in the Americas, which is still only 7% of total group sales. This is driven by increasing sell-through and sales productivity of existing space, as well as additional real estate for all product divisions. As a result, the Autumn/Winter 2010 order book is showing growth well in excess of 20%.

The number of franchise stores, mainly in Emerging Markets, increased from 81 to 97 during the year, with the majority of openings in China (a net 13) and the Middle East. Comparable store sales growth was consistently strong in Turkey and China (up by well over 20%), but more volatile in Russia and Eastern Europe.

## Licensing

8% of revenue (2009: 7%); of which approximately two-thirds from Japan (split roughly two-thirds apparel and one-third from various short-term non-apparel licences) and the balance from global product licences (fragrance, eyewear and timepieces), childrenswear and the final menswear licences

Total licensing revenue in the year declined by 6% on an underlying basis, in line with guidance. Revenue was up 18% reported, reflecting the strength of the yen, which is largely hedged 12 months forward.

There was a mid single-digit decrease in underlying Japanese royalty income, reflecting continued weakness in the department store channel. The recent amendment to the apparel licence increased royalty payments in 2009/10 by £4m compared to plan, with a further step-up in payment in 2011/12. The length of the licence was also reduced by five years, now expiring in June 2015.

Global product licences ended the year broadly flat, reflecting destocking by customers. However, product innovation continued with the launch of Burberry Sport fragrance, eyewear and watches. The non-renewal of menswear licences continued, reducing licensing revenue by about 3%, as Burberry moves to one cohesive global menswear collection.

## Retail/wholesale revenue by product category

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Non-apparel	419.6	366.3	15%	10%
Womenswear	415.5	412.8	1%	(3%)
Menswear	288.5	298.4	(3%)	(7%)
Childrenswear	58.8	41.4	42%	37%
Total retail/wholesale	1,182.4	1,118.9	6%	2%

## Non-apparel

36% of revenue (2009: 33%)

Revenue in non-apparel, now the largest product category, increased by 10% underlying, with good growth across all product categories. Large leather goods accounted for half of non-apparel retail sales and grew by 30% in retail, with particular strength in Asia. Further design and product development expertise benefited shoes.

## Womenswear

35% of revenue (2009: 37%)

Womenswear declined by 3% on an underlying basis, with growth in retail more than offset by destocking in the wholesale channel. Outerwear, which was more than 60% of retail sales, again performed well, driven by range intensification in both Burberry London and Burberry Brit, higher full price sales and increased awareness driven by [artofthetrench.com](http://artofthetrench.com). Within Burberry Brit, denim and sport grew strongly from a small base.

## Menswear

24% of revenue (2009: 26%)

Menswear revenue declined by 7% underlying, also reflecting growth in retail more than offset by wholesale destocking. Outerwear, which was 40% of retail sales, benefited from continued innovation in styles, fit and fabric. In retail, the relabelling of Burberry Brit contributed to good volume and value growth in all product categories, especially in Asia.

With the non-renewal of the final menswear licences, Spring/Summer 2011 will be Burberry's first fully cohesive global menswear collection. This will enable Burberry, over time, to gain share in menswear where it is under-represented.

## Childrenswear

5% of revenue (2009: 4%)

Childrenswear grew by 37% on an underlying basis. About 80% of retail sales are apparel, including outerwear, with the balance being non-apparel, especially soft accessories. With the relocation of childrenswear from Spain to London, the recently strengthened team is fully sharing the expertise of the other global product divisions and back office functions. In the second half, childrenswear reached 7% of Asia Pacific retail sales and about 15% of Burberry Middle East retail sales. Burberry aims to drive childrenswear to 10% of total group sales over time.

## Operating profit analysis

### Total operating profit

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Retail/wholesale	137.7	110.1	25	29
Licensing	82.2	70.7	16	(12)
<b>Adjusted operating profit</b>	<b>219.9</b>	<b>180.8</b>	<b>22</b>	<b>13</b>
<i>Adjusted operating margin</i>	17.2%	15.0%		
Exceptional items	(48.8)	(190.7)		
<b>Operating profit/(loss)</b>	<b>171.1</b>	<b>(9.9)</b>		

Adjusted operating profit in the year increased to £219.9m, including a £16.2m benefit from exchange rates. The adjusted operating margin improved to 17.2%, reflecting a higher retail/wholesale margin.

## Retail/wholesale adjusted operating profit

£ million	Year to 31 March		% change <i>reported</i>
	2010	2009	
Revenue	1,182.4	1,118.9	6
Cost of sales	(475.9)	(535.7)	11
Gross margin	706.5	583.2	21
<i>Gross margin</i>	59.7%	52.1%	
Operating expenses	(568.8)	(473.1)	(20)
<b>Adjusted operating profit</b>	<b>137.7</b>	<b>110.1</b>	<b>25</b>
<i>Operating expenses as % of sales</i>	48.1%	42.3%	
<i>Adjusted operating margin</i>	11.6%	9.8%	

In 2009/10, retail/wholesale adjusted operating profit grew by 25% on sales up 6%. Adjusted operating margin improved to 11.6%, as gross margin increased significantly to 59.7%, surpassing the level of 2007/08 (58.5%). Operating expenses at 48.1% of sales were in line with guidance. With retail increasing to 58% of sales in 2009/10 (52% in the prior year), this channel shift benefited the gross margin percentage but adversely impacted the operating expense to sales ratio and the operating margin.

Excluding Spain, retail/wholesale adjusted operating margin in 2009/10 was 12.7%.

### *Gross margin*

At 59.7%, retail/wholesale gross margin increased by 760 basis points in the year, with a significant recovery starting in the second quarter (H1: down 30 basis points; H2: up 1,400 basis points). The most important factor was a higher percentage of sales at full price, with improved sell-through of in-season ranges (strong product offer and improved consumer demand), lower initial procurement and less clearance activity in both mainline and outlet stores.

The gross margin also benefited from savings from the global cost efficiency programme of about £20m (equivalent to nearly 200 basis points), the switch from wholesale to retail which is a higher gross margin channel (contributing around 100 basis points) and favourable exchange rates in the first half.

Excluding Spain, the retail/wholesale gross margin in 2009/10 was 61.0%.

For 2010/11, Burberry expects a further, but more modest, increase in the gross margin, driven largely by higher full price sell-throughs, improved planning and buying and further sourcing benefits.

### *Operating expenses*

In 2009/10, operating expenses increased by £96m or 580 basis points as a percentage of sales to 48.1% as guided. Savings of approaching £30m were realised from the global cost efficiency programme. These were more than offset by increased bonus and share scheme costs (around £30m in 2009/10, following a near £20m reduction in 2008/09), the impact of exchange rates (about £20m negative), with the balance being the switch from wholesale to retail (a higher cost channel) and the investment in new stores, ventures and initiatives.

Excluding Spain, retail/wholesale operating expenses as a percentage of sales in 2009/10 were 48.3%.

For 2010/11, Burberry expects retail/wholesale operating expenses as a % of sales to be around 50% excluding Spain. This reflects mid single-digit inflation in the business on a comparable basis and a forecast additional £10-15m of share scheme costs. Investment through the income statement will also be accelerated to fund revenue growth, new stores, new ventures and product and corporate initiatives.

### **Licensing operating profit**

<i>£ million</i>	<i>Year to 31 March</i>		<i>Year to 31 March</i>
	<i>2010</i>	<i>2009</i>	<i>2010</i>
			<i>underlying</i>
Revenue	97.5	82.6	77.8
Cost of sales	-	-	-
Gross margin	97.5	82.6	77.8
<i>Gross margin</i>	100%	100%	
Operating expenses	(15.3)	(11.9)	(15.6)
<b>Operating profit</b>	<b>82.2</b>	<b>70.7</b>	<b>62.2</b>
<i>Operating margin</i>	84.3%	85.6%	

As discussed earlier, licensing revenue declined by 6% on an underlying basis, up 18% reported. Exchange rates benefited both revenue and gross margin by £19.7m. With operating expenses returning to more normal levels, operating margin was 84.3% in the year.

## Exceptional items

£ million	Year to 31 March	
	2010	2009
Restructuring costs	(48.8)	(54.9)
Goodwill impairment charge	-	(116.2)
Store impairments	-	(13.4)
Negative goodwill	-	1.7
Relocation of headquarters	-	(7.9)
	<u>(48.8)</u>	<u>(190.7)</u>

During 2009/10, Burberry incurred a £48.8m restructuring charge, of which £3.4m related to the global cost efficiency programme announced in January 2009 and the balance from the Spanish restructuring announced in February 2010. A further charge of about £15m relating to Spain is expected in 2010/11.

Cash spent on restructuring in 2009/10 was £27m (£21m on the cost efficiency programme; £6m in Spain), with about a further £30m expected in Spain in 2010/11.

## Taxation

In the year to 31 March 2010, Burberry had a tax charge of £84m, comprising:

- A tax charge of £59m on adjusted PBT of £215m, giving a tax rate of 27.4% (2009: 23.8%). The year-on-year increase is due mainly to the prior year rate being abnormally low, reflecting the geographical mix of profits.
- A tax credit of £15m relating to the exceptional items detailed above.
- The £40m write-off of deferred tax assets in Spain (comprising £27m of prior years' assets and £13m of 2009/10 tax losses not recognised). Burberry does not expect to generate sufficient profit in Spain in the short to medium term to utilise these assets.

The tax rate on adjusted profit for 2010/11 is expected to be about 28%.

## Cash flow

Net cash at 31 March 2010 was £262m, a significant increase from the £8m at 31 March 2009, driven predominantly by very tight management of working capital. Inventory was reduced by 36% to £167m at 31 March 2010 (2009: £263m), even after a 9% increase in average retail selling space. Trade debtors fell as wholesale revenue declined in the year. Major outflows were capital expenditure of £70m, £53m of dividends, £51m of tax and £27m of restructuring costs.

## **Outlook**

The following guidance for retail, wholesale and licensing is consistent with that given in April 2010.

### *Retail*

In the year to March 2011, Burberry plans an increase of around 10% in average retail selling space, weighted towards the second half. At this stage, no further change to the store portfolio in Spain is assumed. Between 20-30 mainline store openings are planned, biased towards the Americas and Asia Pacific.

### *Wholesale*

In the six months to 30 September 2010, Burberry projects wholesale revenue at constant exchange rates to increase by a high teens percentage excluding Spain. Significant growth is expected in all regions except Europe, where continued rationalisation of small specialty accounts is planned.

Including Spain, where a further material contraction in the sales of the domestic collection is expected, underlying wholesale revenue is projected to increase by around 10%.

### *Licensing*

In the year to March 2011, Burberry expects licensing revenue at constant exchange rates to decline by between 5-10%. The yen hedge rate for 2010/11 will give only a marginal benefit to reported numbers compared to 2009/10.

In line with the amended licence agreement, royalty income from Japanese apparel is expected to be broadly flat year-on-year. Growth from the global product licences will be led by fragrances and watches. However, these will be more than offset by the non-renewal of both the Japanese leather goods licence and the final menswear licences.

### *Spain*

As outlined above, Burberry is restructuring its Spanish operations, introducing the global collection from Spring/Summer 2011. The financial implications of this are set out below.

In the year to 31 March 2010, sales of the affected business were £95m (including all wholesale activity and concessions but excluding three mainline stores and five outlets which will be reported in Europe). These activities were break even in the year, as the second half benefited from earlier wholesale shipments and aggressive control of discretionary expenses following the announcement of the restructuring.

In the transition year to 31 March 2011, Burberry estimates that this revenue will decline by about half and trading losses will increase to around £10m, as both retail and wholesale move from the domestic to global collection, as the number of points of sale decreases and the local cost base is phased out.

In the year to 31 March 2012, a further contraction in revenue is expected, but the business will generate a modest profit as it becomes part of the Europe region, supported by global product and back office teams.

The profitability of the affected Spanish business in FY 2009/10 is given below. In 2010/11, Burberry intends to disclose this business separately to aid investors' understanding of the ongoing global business. The Spanish losses will be excluded from adjusted profit before tax.

### Restatement of FY 2009/10 to exclude Spain

Year to March 2010 £ million	As reported	Spain*	Excluding Spain
<b>Retail/wholesale</b>			
Revenue	1,182.4	94.8	1,087.6
Cost of sales	(475.9)	(52.0)	(423.9)
Gross margin	706.5	42.8	663.7
<i>Gross margin</i>	59.7%	45.1%	61.0%
Operating expenses	(568.8)	(42.8)	(526.0)
<b>Adjusted retail/wholesale operating profit</b>	<b>137.7</b>	<b>0.0</b>	<b>137.7</b>
<i>Operating expenses as % of sales</i>	48.1%	45.1%	48.3%
<i>Adjusted operating margin</i>	11.6%	-	12.7%
<b>Licensing profit</b>	<b>82.2</b>	-	<b>82.2</b>
<b>Adjusted operating profit</b>	<b>219.9</b>	<b>0.0</b>	<b>219.9</b>

\* Spain revenue split £39m retail, £56m wholesale

## APPENDIX

### Store portfolio

	Directly-operated stores				Franchise stores
	Mainline stores	Concessions	Outlets	Total	
At 31 March 2009	119	253	47	419	81
Additions	18	25	2	45	21
Closures	(9)	(16)	(2)	(27)	(2)
Transfers	3	-	-	3	(3)
At 31 March 2010	131	262	47	440	97

### Store portfolio by region

At 31 March 2010	Directly-operated stores				Franchise stores
	Mainline stores	Concessions	Outlets	Total	
Europe	32	26	15	73	14
Spain	3	128	5	136	-
Americas <sup>#</sup>	62	-	22	84	3
Asia Pacific	21	108	4	133	66
Rest of World	13	-	1	14	14
Total	131	262	47	440	97

<sup>#</sup> Three franchise stores in the Americas are in Mexico

### Net retail selling square footage

At 31 March	000s square feet
2007	650
2008	740
2009	845
2010	890

Retail selling square footage at period end; not the average for the period

### Retail/wholesale revenue by destination

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Europe	408.1	379.8	7%	3%
Spain	107.1	144.5	(26%)	(29%)
Americas <sup>#</sup>	324.8	308.9	5%	2%
Asia Pacific	282.7	240.0	18%	13%
Rest of World <sup>#</sup>	59.7	45.7	31%	27%
Total retail/wholesale	1,182.4	1,118.9	6%	2%

<sup>#</sup> Central and South America revenue has been reclassified from Rest of World to the Americas (2010: £7m; 2009: £4m)

## GROUP INCOME STATEMENT

	Note	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Revenue	2	1,279.9	1,201.5
Cost of sales		(475.9)	(535.7)
Gross profit		804.0	665.8
Net operating expenses	3	(632.9)	(675.7)
Operating profit/(loss)		171.1	(9.9)
Financing			
Interest receivable and similar income	5	1.1	7.2
Interest payable and similar charges	5	(6.2)	(13.4)
Net finance charge	5	(5.1)	(6.2)
Profit/(loss) before taxation	4	166.0	(16.1)
Taxation	6	(83.8)	11.0
Profit/(loss) for the year		82.2	(5.1)
Attributable to:			
Equity holders of the company		81.4	(6.0)
Minority interest		0.8	0.9
Profit/(loss) for the year		82.2	(5.1)
Earnings/(loss) per share			
– basic	7	18.8p	(1.4p)
– diluted	7	18.4p	(1.4p)
Operating profit/(loss)			
		£m	£m
		171.1	(9.9)
Exceptional items:			
– Restructuring costs	3	48.8	54.9
– Goodwill impairment charge	3	–	116.2
– Store impairments and onerous lease provisions	3	–	13.4
– Negative goodwill	3	–	(1.7)
– Relocation of headquarters	3	–	7.9
Adjusted operating profit		219.9	180.8
Adjusted earnings per share			
– basic	7	35.9p	30.6p
– diluted	7	35.1p	30.2p
Dividends per share			
– interim	8	3.50p	3.35p
– proposed final (not recognised as a liability at 31 March)	8	10.50p	8.65p

## GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Profit/(loss) for the period		82.2	(5.1)
Other comprehensive income:			
– Cash flow hedges	17	17.3	(10.7)
– Foreign currency translation differences		(6.7)	116.8
Tax on other comprehensive income:			
– Cash flow hedges		(5.0)	3.1
– Foreign currency translation differences		(6.6)	(4.3)
Other comprehensive (expense)/income for the period, net of tax		(1.0)	104.9
Total comprehensive income for the period		81.2	99.8
Total comprehensive income attributable to:			
Equity holders of the company		79.8	98.8
Minority interest		1.4	1.0
		81.2	99.8

## GROUP BALANCE SHEET

	Note	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>ASSETS</b>			
Non-current assets			
Intangible assets	9	64.6	57.5
Property, plant and equipment	10	256.1	258.6
Deferred tax assets		39.2	57.7
Trade and other receivables	11	11.0	9.5
Derivative financial assets		1.7	–
		372.6	383.3
Current assets			
Inventories	12	166.9	262.6
Trade and other receivables	11	128.4	187.2
Derivative financial assets		2.6	23.2
Income tax receivables		0.7	17.1
Cash and cash equivalents	13	468.4	252.3
		767.0	742.4
<b>Total assets</b>		<b>1,139.6</b>	<b>1,125.7</b>
<b>LIABILITIES</b>			
Non-current liabilities			
Trade and other payables	14	(26.5)	(23.8)
Deferred tax liabilities		(1.6)	(2.3)
Derivative financial liabilities		(0.2)	(0.4)
Retirement benefit obligations		(0.5)	(0.6)
Provisions for other liabilities and charges	15	(5.5)	(7.9)
		(34.3)	(35.0)
Current liabilities			
Bank overdrafts and borrowings	16	(206.4)	(244.7)
Derivative financial liabilities		(9.0)	(57.1)
Trade and other payables	14	(200.2)	(162.4)
Provisions for other liabilities and charges	15	(34.4)	(33.5)
Income tax liabilities		(51.8)	(49.1)
		(501.8)	(546.8)
<b>Total liabilities</b>		<b>(536.1)</b>	<b>(581.8)</b>
<b>Net assets</b>		<b>603.5</b>	<b>543.9</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Ordinary share capital	17	0.2	0.2
Share premium account		186.1	175.9
Capital reserve	17	27.2	27.2
Hedging reserve	17	(1.1)	(13.4)
Foreign currency translation reserve	17	136.3	150.2
Retained earnings		241.4	199.2
		590.1	539.3
Minority interests in equity		13.4	4.6
<b>Total equity</b>		<b>603.5</b>	<b>543.9</b>

## GROUP STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the Company				Total £m	Minority interest £m	Total equity £m
		Ordinary Share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m			
Balance as at 1 April 2008		0.2	174.3	58.6	262.2	495.3	–	495.3
Profit/(loss) for the period		–	–	–	(6.0)	(6.0)	0.9	(5.1)
Other comprehensive income:								
Cash flow hedges	17	–	–	(10.7)	–	(10.7)	–	(10.7)
Foreign currency translation differences		–	–	116.7	–	116.7	0.1	116.8
Tax on other comprehensive income		–	–	(1.2)	–	(1.2)	–	(1.2)
Total comprehensive income/(expense) for the period		–	–	104.8	(6.0)	98.8	1.0	99.8
Transfer between reserves		–	–	0.6	(0.6)	–	–	–
Transactions with owners:								
Employee share option schemes								
– value of share options granted		–	–	–	4.5	4.5	–	4.5
– tax on share options granted		–	–	–	(2.4)	(2.4)	–	(2.4)
– exercise of share options		–	1.6	–	(1.6)	–	–	–
Purchase of own shares		–	–	–	(5.4)	(5.4)	–	(5.4)
Sale of own shares by ESOPs		–	–	–	0.2	0.2	–	0.2
Capital contribution by minority interest		–	–	–	–	–	3.6	3.6
Dividends paid in the period		–	–	–	(51.7)	(51.7)	–	(51.7)
Balance as at 31 March 2009		0.2	175.9	164.0	199.2	539.3	4.6	543.9
Profit for the period		–	–	–	81.4	81.4	0.8	82.2
Other comprehensive income:								
Cash flow hedges	17	–	–	17.3	–	17.3	–	17.3
Foreign currency translation differences		–	–	(7.3)	–	(7.3)	0.6	(6.7)
Tax on other comprehensive income		–	–	(11.6)	–	(11.6)	–	(11.6)
Total comprehensive income/(expense) for the period		–	–	(1.6)	81.4	79.8	1.4	81.2
Transactions with owners:								
Employee share option schemes								
– value of share options granted		–	–	–	18.1	18.1	–	18.1
– tax on share options granted		–	–	–	9.3	9.3	–	9.3
– exercise of share options		–	10.2	–	(8.3)	1.9	–	1.9
Purchase of own shares		–	–	–	(7.5)	(7.5)	–	(7.5)
Treasury shares		–	–	–	(0.4)	(0.4)	–	(0.4)
Sale of own shares by ESOPs		–	–	–	2.1	2.1	–	2.1
Capital contribution by minority interest		–	–	–	–	–	7.4	7.4
Dividends paid in the period		–	–	–	(52.5)	(52.5)	–	(52.5)
Balance as at 31 March 2010		0.2	186.1	162.4	241.4	590.1	13.4	603.5

## GROUP CASH FLOW STATEMENT

	Note	Year to 31 March 2010 £m	Year to 31 March 2009 £m
<b>Cash flows from operating activities</b>			
Operating profit/(loss)		171.1	(9.9)
Depreciation		46.1	44.8
Amortisation		6.2	4.8
Net impairment charges		7.7	126.8
Negative goodwill		–	(1.7)
Loss on disposal of property, plant and equipment and intangible assets		4.2	2.0
Fair value (gains)/losses on derivative instruments		(11.9)	10.7
Charges in respect of employee share incentive schemes		18.1	4.5
Decrease in inventories		87.4	55.7
Decrease in receivables		56.2	2.1
Increase in payables		40.5	2.2
<b>Cash generated from operating activities</b>		<b>425.6</b>	<b>242.0</b>
Interest received		1.1	7.7
Interest paid		(6.1)	(13.6)
Taxation paid		(51.3)	(26.3)
<b>Net cash inflow from operating activities</b>		<b>369.3</b>	<b>209.8</b>
<b>Cash flows from investing activities</b>			
Purchase of tangible and intangible fixed assets		(69.9)	(89.9)
Proceeds from sale of property, plant and equipment		–	0.1
Capital contributions by minority interests		7.4	–
Business combinations, net of cash acquired	20	(2.0)	(0.3)
<b>Net cash outflow from investing activities</b>		<b>(64.5)</b>	<b>(90.1)</b>
<b>Cash flows from financing activities</b>			
Dividends paid in the year	8	(52.5)	(51.7)
Issue of ordinary share capital		1.9	–
Sale of own shares by ESOPs		2.1	0.2
Purchase of own shares by ESOPs		(7.5)	(5.4)
Repayments of borrowings		(39.7)	(109.0)
Proceeds from borrowings		1.2	35.5
Derivatives matured during the year and remaining in equity		0.2	5.7
<b>Net cash outflow from financing activities</b>		<b>(94.3)</b>	<b>(124.7)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>210.5</b>	<b>(5.0)</b>
Effect of exchange rate changes		(0.3)	13.2
Cash and cash equivalents at beginning of period		53.0	44.8
<b>Cash and cash equivalents at end of period</b>		<b>263.2</b>	<b>53.0</b>

## ANALYSIS OF NET CASH

	Note	As at 31 March 2010 £m	As at 31 March 2009 £m
Cash and cash equivalents as per the balance sheet	13	468.4	252.3
Bank overdrafts	16	(205.2)	(199.3)
<b>Cash and cash equivalents per the statement of cash flows</b>		<b>263.2</b>	<b>53.0</b>
Drawn down borrowings		(1.2)	(35.5)
Effect of exchange rate changes on foreign currency borrowings		–	(9.9)
Bank and other borrowings	16	(1.2)	(45.4)
<b>Net cash</b>		<b>262.0</b>	<b>7.6</b>

## NOTES TO THE FINANCIAL INFORMATION

### 1. Basis of preparation

The financial information contained in this report has been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These financial statements do not constitute the Burberry Group's (the Group) Annual Report and Accounts within the meaning of Section 435 of the Companies Act 2006.

Statutory accounts for the year ended 31 March 2009 have been filed with the Registrar of Companies, and those for 2010 will be delivered in due course. The reports of the auditors on those statutory accounts for the years ended 31 March 2009 and 31 March 2010 were unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under either Section 498(2) or Section 498(3) of the Companies Act 2006.

The principal accounting policies applied in the preparation of the consolidated financial statements are consistent with those set out in the statutory accounts for 2008/09.

### 2. Segmental analysis

The Chief Operating Decision Maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports used by the Board.

The Board considers Burberry's business through its two channels to market, being Retail/Wholesale and Licensing. Retail/Wholesale revenues are generated by the sale of luxury goods through Burberry mainline stores, concessions, outlets and digital commerce as well as Burberry franchisees and prestige department stores globally.

The flow of global product between Retail and Wholesale channels and across our regions is monitored and optimised at a corporate level and implemented via the Group's inventory hubs situated in Asia, Europe and the US. Licensing revenues are generated through the receipt of royalties from Burberry's partners in Japan and global licensees of fragrances, eyewear, timepieces and European childrenswear.

The Board assesses channel performance based on a measure of adjusted operating profit. This measurement basis excludes the effects of non-recurring events and exceptional items. The measure of earnings for each operating segment that is reviewed by the Board includes an allocation of corporate and central costs. Interest income and expenditure and taxation are not included in the result for each operating segment that is reviewed by the Board. Comparative information has been restated on the adoption of IFRS 8.

## NOTES TO THE FINANCIAL INFORMATION

### 2. Segment analysis (continued)

	Retail / Wholesale		Licensing		Total	
	Year to 31 March 2010 £m	Year to 31 March 2009 (restated) £m	Year to 31 March 2010 £m	Year to 31 March 2009 (restated) £m	Year to 31 March 2010 £m	Year to 31 March 2009 (restated) £m
Total segment revenue	1,182.4	1,118.9	117.3	107.5	1,299.7	1,226.4
Inter-segment revenue <sup>(1)</sup>	–	–	(19.8)	(24.9)	(19.8)	(24.9)
Revenue from external customers	1,182.4	1,118.9	97.5	82.6	1,279.9	1,201.5
Depreciation and amortisation	52.3	45.1	–	–	52.3	45.1
Net impairment charges	6.1	126.8	–	–	6.1	126.8
Other non-cash expenses						
– Share based payments	13.6	3.4	4.5	1.1	18.1	4.5
Adjusted operating profit (reportable segments)	137.7	110.1	82.2	70.7	219.9	180.8
Exceptional items <sup>(2)</sup>					(48.8)	(190.7)
Net finance charge					(5.1)	(6.2)
Profit/(loss) before taxation					166.0	(16.1)
Capital expenditure	73.2	95.4	–	–	73.2	95.4
Total segment assets	589.1	750.6	7.3	14.9	596.4	765.5
Goodwill					34.9	33.1
Cash and cash equivalents					468.4	252.3
Taxation					39.9	74.8
Total assets per balance sheet					1,139.6	1,125.7

(1) Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would be available to unrelated third parties.

(2) Refer to note 3 for details of exceptional items.

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Revenue by product		
Womenswear	415.5	412.8
Menswear	288.5	298.4
Non-apparel	419.6	366.3
Childrenswear	58.8	41.4
Retail/Wholesale	1,182.4	1,118.9
Licensing	97.5	82.6
Total	1,279.9	1,201.5

	Year to 31 March 2010 £m	Year to 31 March 2009 (restated) £m
Revenue by destination		
Europe	408.1	379.8
Spain	107.1	144.5
Americas	324.8	308.9
Asia Pacific	282.7	240.0
Rest of the world	59.7	45.7
Retail/Wholesale	1,182.4	1,118.9
Licensing	97.5	82.6
Total	1,279.9	1,201.5

## NOTES TO THE FINANCIAL INFORMATION

### 2. Segment analysis (continued)

Revenue to external customers originating in the UK totalled £350.0m for the year to 31 March 2010 (2009: £321.8m).

Revenue to external customers originating in foreign countries totalled £929.9m for the year to 31 March 2010 (2009: £879.7m). This amount includes £307.6m of external revenues originating in the United States of America (2009: £301.2m) and £117.8m originating in Spain (2009: £163.9m).

The total of non-current assets other than financial instruments, deferred tax assets, employment benefit assets and rights arising under insurance contracts, located in the UK is £64.6m (2009: £63.5m) and the total of these non-current assets located in other countries is £266.9m (2009: £261.9m).

### 3. Net operating expenses

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Selling and distribution costs	306.5	241.5
Administrative expenses	273.5	241.8
Loss on disposal of property, plant and equipment	4.2	1.8
Property rental income under operating leases	(0.1)	(0.1)
Exceptional items		
Restructuring costs	48.8	54.9
Goodwill impairment	–	116.2
Store impairments and onerous lease provisions	–	13.4
Negative goodwill	–	(1.7)
Relocation of headquarters	–	7.9
Total	632.9	675.7

#### Exceptional items

In the year to 31 March 2010, Burberry announced the restructuring of its Spanish operations. Charges of £45.4m have been recognised in respect of this restructure. A further £3.4m of charges have been recognised in respect of the cost efficiency programme announced in the year to 31 March 2009.

In the year to 31 March 2009, the Group impaired the entire goodwill relating to the Spanish business and the store assets at certain retail locations in the US and Europe.

In the year to 31 March 2009, negative goodwill of £1.7m arose on the formation of Burberry Middle East LLC.

In 2008, the Group relocated its global headquarters. In the year to 31 March 2009, the Group increased the provision for onerous leases in relation to this relocation by £7.9m.

## NOTES TO THE FINANCIAL INFORMATION

### 4. Profit/(loss) before taxation

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Profit/(loss) before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment		
– within cost of sales	0.7	1.2
– within distribution costs	5.5	4.6
– within administrative expenses	39.9	34.8
Amortisation of intangible assets	6.2	4.5
Loss on disposal of property, plant and equipment and intangible assets	4.2	1.8
Goodwill impairment charge	1.4	–
Net impairment charge relating to certain retail assets	4.7	–
Employee costs	240.5	202.7
Operating lease rentals		
– minimum lease payments	71.1	60.9
– contingent rents	44.2	37.0
Auditor's remuneration	2.8	3.1
Net exchange gain included in the income statement	(4.0)	(9.5)
Net (gain)/loss on derivatives held for trading	(5.6)	1.3
Trade receivables net impairment charge	2.8	3.4
Cost of goods consumed in cost of sales	460.7	519.4
Exceptional items		
Restructuring costs	48.8	54.9
Goodwill impairment	–	116.2
Store impairments and onerous lease provision	–	13.4
Negative goodwill	–	(1.7)
Relocation of headquarters	–	7.9

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Auditor's remuneration is further analysed as follows:		
Audit services in respect of the accounts of the Company	0.1	0.1
Audit services in respect of the accounts of subsidiary companies	1.6	1.6
Other audit services supplied pursuant to legislation	0.3	0.2
Services relating to taxation		
– compliance services	0.4	0.9
– advisory services	0.4	0.3
<b>Total</b>	<b>2.8</b>	<b>3.1</b>

All work performed by the external auditors is controlled by an authorisation policy agreed by the Audit Committee. The overriding principle precludes the auditors from engaging in non-audit services that would compromise their independence. Non-audit services are provided by the auditors where they are best placed to provide the service due to their previous experience or market leadership in a particular area. Included in services relating to taxation above is £0.2m (2009: £0.3m) which arose in relation to advice on expatriate tax matters.

## NOTES TO THE FINANCIAL INFORMATION

### 5. Net finance charge

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Bank interest income	1.1	7.1
Other interest income	–	0.1
Interest receivable and similar income	1.1	7.2
Interest expense on bank loans and overdrafts	(4.5)	(12.4)
Loss on derivatives held for trading	–	(1.0)
Loss on interest rate swap transferred from equity	(1.4)	–
Other interest expense	(0.3)	–
Interest payable and similar charges	(6.2)	(13.4)
Net finance charge	(5.1)	(6.2)

### 6. Taxation

Analysis of charge for the year recognised in the Group Income Statement

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Current tax		
UK corporation tax		
Current tax on income for the year to 31 March 2010 at 28% (2009: 28%)	52.2	22.0
Double taxation relief	(2.4)	(3.0)
Adjustments in respect of prior years	(7.1)	(8.5)
	42.7	10.5
Foreign tax		
Current tax on income for the year	23.1	8.3
Adjustments in respect of prior years	5.2	(1.9)
Total current tax	71.0	16.9
Deferred tax		
UK deferred tax		
Origination and reversal of temporary differences	(0.7)	(2.4)
Adjustments in respect of prior years	2.7	1.8
	2.0	(0.6)
Foreign deferred tax		
Origination and reversal of temporary differences	12.1	(27.7)
Effects of changes in tax rates	–	(0.6)
Adjustments in respect of prior years	(1.3)	1.0
Total deferred tax	12.8	(27.9)
Total tax charge/(credit) on profit/(loss)	83.8	(11.0)

## NOTES TO THE FINANCIAL INFORMATION

### 6. Taxation (continued)

Analysis of charge for the year recognised in equity

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Current tax		
Current tax credit on share options (retained earnings)	(2.2)	(0.4)
Current tax charge on exchange differences on loans (foreign currency translation reserve)	–	3.9
Total current tax recognised in equity	(2.2)	3.5
Deferred tax		
Deferred tax charge/(credit) on cash flow hedges deferred in equity (hedging reserve)	0.1	(7.8)
Deferred tax charge on cash flow hedges transferred to income (hedging reserve)	4.9	4.7
Deferred tax (credit)/charge on share options (retained earnings)	(7.1)	2.8
Deferred tax charge on exchange differences on loans (foreign currency translation reserve)	6.6	0.4
Total deferred tax recognised in equity	4.5	0.1

The tax rate applicable on profit/(loss) varied from the standard rate of corporation tax in the UK due to the following factors:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Tax at 28% (2009: 28%) on profit/(loss) before taxation	46.5	(4.5)
Rate adjustments relating to overseas profits	(8.3)	(4.2)
Permanent differences	6.5	2.6
Current year tax losses not recognised	12.3	3.3
Deferred tax assets brought forward and written off	27.3	–
Adjustments in respect of prior years	(0.5)	(7.6)
Adjustments to deferred tax relating to changes in tax rates	–	(0.6)
Total taxation charge/(credit)	83.8	(11.0)

Total taxation recognised in the Group Income Statement arises on:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Adjusted profit before tax	58.8	41.6
Exceptional items	(2.3)	(20.0)
Exceptional tax charge/(credit)	27.3	(32.6)
Total taxation charge/(credit)	83.8	(11.0)

In the year to 31 March 2010, the exceptional tax charge of £27.3m relates to the write down of deferred tax assets on tax losses incurred in Spain in prior years which are deemed no longer to be recoverable.

In the year to 31 March 2009, an exceptional tax credit of £5.0m was recognised relates to the overpayment of tax in prior years and a credit of £27.6m was recognised arising on a reorganisation within the Group.

## NOTES TO THE FINANCIAL INFORMATION

### 7. Earnings per share

The calculation of basic earnings per share is based on attributable profit or loss for the year divided by the weighted average number of ordinary shares in issue during the year. Basic and diluted earnings per share based on adjusted operating profit and the underlying effective tax rate are also disclosed to indicate the underlying profitability of Burberry Group.

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Attributable profit for the year before exceptional items <sup>(1)</sup>	155.2	132.1
Effect of exceptional items <sup>(1)</sup> (after taxation)	(73.8)	(138.1)
Attributable profit/(loss) for the year	81.4	(6.0)

(1) Refer to note 3 for details of exceptional items.

The weighted average number of ordinary shares represents the weighted average number of Burberry Group plc ordinary shares in issue throughout the year, excluding ordinary shares held in Burberry Group's employee share option plan trusts (ESOP trusts).

Diluted earnings per share is based on the weighted average number of ordinary shares in issue during the year. In addition, account is taken of any options and awards made under the share incentive schemes, which will have a dilutive effect when exercised.

	Year to 31 March 2010 Millions	Year to 31 March 2009 Millions
Weighted average number of ordinary shares in issue during the year	432.6	431.3
Dilutive effect of the share incentive schemes	9.3	6.8
Diluted weighted average number of ordinary shares in issue during the year	441.9	438.1

	Year to 31 March 2010 Pence	Year to 31 March 2009 Pence
Adjusted basic earnings per share <sup>(1)</sup>	35.9	30.6
Effect of exceptional items <sup>(1)</sup>	(17.1)	(32.0)
Basic earnings/(loss) per share	18.8	(1.4)

	Year to 31 March 2010 Pence	Year to 31 March 2009 Pence
Adjusted diluted earnings per share <sup>(1)</sup>	35.1	30.2
Effect of exceptional items <sup>(1)</sup>	(16.7)	(31.6)
Diluted earnings/(loss) per share	18.4	(1.4)

(1) Refer to note 3 for details of exceptional items.

### 8. Dividends

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Prior year final dividend paid 8.65p per share (2009: 8.65p)	37.4	37.2
Interim dividend paid 3.50p per share (2009: 3.35p)	15.1	14.5
Total	52.5	51.7

A final dividend in respect of the year to 31 March 2010 of 10.50p (2009: 8.65p) per share, amounting to £45.7m (2009: £37.4m), has been proposed for approval by the shareholders at the Annual General Meeting subsequent to the balance sheet date. The final dividend has not been recognised as a liability at the year end and will be paid on 5 August 2010 to shareholders on the register at the close of business on 9 July 2010.

## NOTES TO THE FINANCIAL INFORMATION

### 9. Intangible assets

Cost	Goodwill £m	Trade marks, trading licences and other £m	Computer software £m	Total £m
As at 1 April 2008	130.1	15.7	18.8	164.6
Effect of foreign exchange rate changes	17.9	2.3	0.8	21.0
Additions	1.3	0.1	7.2	8.6
Impairment charge	(116.2)	–	–	(116.2)
As at 31 March 2009	33.1	18.1	26.8	78.0
Effect of foreign exchange rate changes	2.6	(0.6)	0.1	2.1
Additions	–	0.2	7.2	7.4
Business combination (note 20)	0.6	–	–	0.6
Disposals	–	(0.6)	(1.1)	(1.7)
Impairment charge	(1.4)	–	–	(1.4)
Reclassification from assets under construction (note 10)	–	–	5.2	5.2
As at 31 March 2010	34.9	17.1	38.2	90.2
<b>Accumulated amortisation</b>				
As at 1 April 2008	–	5.8	8.4	14.2
Effect of foreign exchange rate changes	–	0.9	0.6	1.5
Charge for the year <sup>(1)</sup>	–	1.3	3.5	4.8
As at 31 March 2009	–	8.0	12.5	20.5
Effect of foreign exchange rate changes	–	(0.3)	–	(0.3)
Charge for the year	–	1.4	4.8	6.2
Disposals	–	(0.1)	(0.7)	(0.8)
As at 31 March 2010	–	9.0	16.6	25.6
<b>Net book value</b>				
As at 31 March 2010	34.9	8.1	21.6	64.6
As at 31 March 2009	33.1	10.1	14.3	57.5

(1) Included in the amortisation charge for the year ended 31 March 2009 is £0.3m of restructuring costs reported as an exceptional item.

#### Impairment testing of goodwill

The carrying value of the goodwill allocated to cash generating units:	As at 31 March 2010 £m	As at 31 March 2009 £m
Korea	23.6	21.0
Other	11.3	12.1
Total	34.9	33.1

On 30 August 2008, the Group terminated its franchise agreement in Guam, thereby settling a pre-existing arrangement. A new company, Burberry Guam Inc., was incorporated which acquired the retailing businesses from the terminated franchisee. Based on management's current estimates, the recoverable amount of goodwill in respect of Burberry Guam Inc. does not exceed its carrying value. Consequently, the net book value of £1.4m was written off in full during the year to 31 March 2010.

No impairment has been recognised in respect of the carrying value of the remaining goodwill balance as the recoverable amount of goodwill for each cash generating unit exceeds its carrying value. The recoverable amount of all cash generating units have been determined on a value in use basis. The value in use calculations were performed using pre-tax cash flow projections for 2010/11 based on financial plans approved by management. No growth has been assumed in the cash flow projections beyond the current period. These cash flows were discounted at pre-tax rates reflecting the Group's weighted average cost of capital adjusted for country specific tax rates and risks. The cash flows in the Korean value in use calculation were discounted at a pre-tax rate of 16.3% (2009: 16.0%).

At 31 March 2009 an impairment provision of £116.2m was recognised in respect of the carrying value of goodwill in the Spanish business.

## NOTES TO THE FINANCIAL INFORMATION

### 10. Property, plant and equipment

Cost	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
As at 1 April 2008	76.9	90.7	147.0	8.5	323.1
Effect of foreign exchange rate changes	20.1	31.1	26.5	3.0	80.7
Additions	0.1	38.0	38.5	11.5	88.1
Disposals	–	(3.2)	(7.7)	(0.1)	(11.0)
Reclassification from assets under construction	–	3.6	0.1	(3.7)	–
Acquisition of subsidiary	–	0.7	–	0.9	1.6
As at 31 March 2009	97.1	160.9	204.4	20.1	482.5
Effect of foreign exchange rate changes	(4.5)	(6.1)	(2.8)	(0.6)	(14.0)
Additions	–	17.3	38.6	9.9	65.8
Disposals	(0.4)	(7.7)	(23.2)	(1.4)	(32.7)
Reclassification from assets under construction	–	4.8	8.4	(18.4)	(5.2)
Business combination (note 20)	–	–	0.8	–	0.8
As at 31 March 2010	92.2	169.2	226.2	9.6	497.2
<b>Accumulated depreciation</b>					
As at 1 April 2008	24.0	28.1	93.5	–	145.6
Effect of foreign exchange rate changes	6.2	9.4	16.0	–	31.6
Charge for the year <sup>(1)</sup>	2.0	12.6	30.2	–	44.8
Net impairment charge on certain retail assets	–	5.2	5.4	–	10.6
Disposals	–	(1.9)	(6.8)	–	(8.7)
As at 31 March 2009	32.2	53.4	138.3	–	223.9
Effect of foreign exchange rate changes	(1.4)	(1.9)	(2.5)	–	(5.8)
Charge for the year	2.4	14.8	28.9	–	46.1
Net impairment charge on assets	–	2.3	4.0	–	6.3
Disposals	(0.1)	(6.1)	(23.2)	–	(29.4)
As at 31 March 2010	33.1	62.5	145.5	–	241.1
<b>Net book value</b>					
As at 31 March 2010	59.1	106.7	80.7	9.6	256.1
As at 31 March 2009	64.9	107.5	66.1	20.1	258.6

(1) Accelerated depreciation of £4.2m and £0.2m loss on disposal of assets are included within restructuring costs as an exceptional item for the year ended 31 March 2009.

During the year to 31 March 2010 a net impairment charge of £4.7m (2009: £10.6m) was identified as part of the annual impairment review. Of the total charge £3.9m (2009: £5.4m) relates to certain retail stores in the US, £0.8m (2009: £4.0m) relates to certain retail stores in Europe and £nil (2009: £1.2m) in relation to certain retail stores in Spain.

A further impairment charge of £1.6m in respect of the write off of certain Spanish assets has been included within restructuring costs as an exceptional item in the year to 31 March 2010.

The impairment review compared the value in use of the assets to the carrying values at 31 March 2010. The pre-tax cash flow projections were based on financial plans approved by management and extrapolated beyond the budget year to the lease exit dates using growth rates and inflation rates appropriate to each country's economic conditions. The pre-tax discount rates used in these calculations were between 11.6% and 17.3% (2009: between 11.3% and 16.1%), based on Burberry Group's weighted average cost of capital adjusted for the country specific tax rates and risk.

## NOTES TO THE FINANCIAL INFORMATION

### 11. Trade and other receivables

	As at 31 March 2010 £m	As at 31 March 2009 £m
Non-current		
Deposits and prepayments	11.0	9.5
Total non-current trade and other receivables	11.0	9.5
Current		
Trade receivables	109.1	154.1
Provision for doubtful debts	(16.8)	(7.6)
Net trade receivables	92.3	146.5
Other receivables	15.3	13.7
Prepayments and accrued income	20.8	27.0
Total current trade and other receivables	128.4	187.2
Total trade and other receivables	139.4	196.7

£6.8m of the non-current receivable balance (2009: £7.5m) is due within five years from the balance sheet date, with the remainder due at various stages after this. The entire balance is non-interest bearing.

As at 31 March 2010, trade receivables of £24.0m (2009: £8.3m) were impaired. The amount of the provision against these receivables was £16.8m as of 31 March 2010 (2009: £7.6m). It was assessed that a portion of the receivables is expected to be recovered. The individually impaired receivables relate to balances with trading parties which have passed their payment due dates and where uncertainty exists over recoverability. Individually impaired receivables of £6.8m relate to the restructuring of the Spanish operations and are included in exceptional items (note 3). The ageing of the impaired receivables is as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Current		
Less than 1 month overdue	6.1	1.6
1 to 3 months overdue	3.5	1.4
Over 3 months overdue	6.1	5.3
	24.0	8.3

As at 31 March 2010, trade receivables of £3.8m (2009: £13.2m) were overdue but not impaired. The ageing of these overdue receivables is as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Less than 1 month overdue	3.5	5.9
1 to 3 months overdue	0.3	4.7
Over 3 months overdue	—	2.6
	3.8	13.2

Movement on the provision for doubtful debts is as follows:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
At 1 April	7.6	5.0
Increase in provision for doubtful debts	11.3	4.2
Receivables written off during the year as uncollectable	(0.4)	(0.8)
Unused provision reversed	(1.7)	(0.8)
As at 31 March	16.8	7.6

## NOTES TO THE FINANCIAL INFORMATION

### 11. Trade and other receivables (continued)

Within the other classes of trade and other receivables there are £0.1m (2009: £0.8m) impaired receivables. The maximum exposure to credit risk at the reporting date with respect to trade receivables is the carrying amount on the Balance Sheet. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Sterling	56.2	66.6
US Dollar	23.8	33.0
Euro	27.3	66.0
Other currencies	32.1	31.1
	139.4	196.7

The nominal value less impairment provision of trade and other receivables is assumed to approximate its fair value because of the short maturity of these instruments.

### 12. Inventories

	As at 31 March 2010 £m	As at 31 March 2009 £m
Raw materials	7.1	12.9
Work in progress	2.7	3.2
Finished goods	157.1	246.5
Total inventories	166.9	262.6

The cost of inventories recognised as an expense and included in cost of sales amounted to £460.7m (2009: £519.4m).

The Group reversed £2.6m (2009: £nil) of a previous inventory writedown in the year to 31 March 2010. The cost of inventories physically destroyed in the year is £1.5m (2009: £0.7m).

### 13. Cash and cash equivalents

	As at 31 March 2010 £m	As at 31 March 2009 £m
Cash at bank and in hand	267.1	249.6
Short term deposits	201.3	2.7
Total	468.4	252.3

The fair value of short term deposits approximates the carrying amount because of the short maturity of the instruments.

### 14. Trade and other payables

	As at 31 March 2010 £m	As at 31 March 2009 £m
Non-current		
Other creditors, accruals and deferred income	26.5	23.8
Total non-current trade and other payables	26.5	23.8
Current		
Trade creditors	62.1	54.8
Other taxes and social security costs	6.2	7.8
Other creditors	17.7	16.4
Accruals and deferred income	114.2	83.4
Total current trade and other payables	200.2	162.4
Total trade and other payables	226.7	186.2

## NOTES TO THE FINANCIAL INFORMATION

### 14. Trade and other payables (continued)

The maturity of non-current trade and other payables, all of which do not bear interest, is as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Between one and two years	3.7	2.2
Between two and three years	2.4	0.9
Between three and four years	2.2	2.0
Between four and five years	3.7	2.5
Over five years	14.5	16.2
<b>Total</b>	<b>26.5</b>	<b>23.8</b>

The fair value of trade and other payables approximate their carrying amounts and are unsecured.

### 15. Provisions for other liabilities and charges

	Property obligations £m	Restructuring costs <sup>(1)</sup> £m	Total £m
Balance as at 1 April 2008	3.7	–	3.7
Created during the year	10.7	27.5	38.2
Utilised during the year	(0.5)	–	(0.5)
Balance as at 31 March 2009	13.9	27.5	41.4
Effect of foreign exchange rate changes	0.1	(1.2)	(1.1)
Created during the year	2.2	36.9	39.1
Utilised during the year	(4.0)	(28.7)	(32.7)
Released during the year	(2.5)	(4.3)	(6.8)
<b>Balance as at 31 March 2010</b>	<b>9.7</b>	<b>30.2</b>	<b>39.9</b>

(1) Restructuring costs are included in exceptional items (note 3).

	As at 31 March 2010 £m	As at 31 March 2009 £m
Analysis of total provisions:		
Non-current	5.5	7.9
Current	34.4	33.5
<b>Total</b>	<b>39.9</b>	<b>41.4</b>

The non-current provisions relate to provisions for onerous leases which are expected to be utilised within nine years. Onerous leases of £1.2m are included within restructuring costs of which £0.6m are non-current. The remaining restructuring provision of £29.6m represents a current liability.

### 16. Bank overdrafts and borrowings

	As at 31 March 2010 £m	As at 31 March 2009 £m
Unsecured:		
Bank overdrafts	205.2	199.3
Bank borrowings	0.7	45.4
Other borrowings	0.5	–
<b>Total</b>	<b>206.4</b>	<b>244.7</b>

Included within bank overdrafts is £205.0m (2009: £199.2m) representing balances on cash pooling arrangements in the Group.

## NOTES TO THE FINANCIAL INFORMATION

### 16. Bank overdrafts and borrowings (continued)

On 13 June 2008, bilateral multi-currency revolving credit facilities, totalling £60m were agreed with two banks. At 31 March 2010, there were no outstanding drawings (2009: nil). Interest is charged on each of these facilities at LIBOR plus 0.95% on drawings less than 50% of the loan principal and at LIBOR plus 1.05% on drawings over 50% of the loan principal. The facilities mature on 13 June 2011.

On 16 March 2009, a £200m multi-currency revolving credit facility was agreed with a syndicate of third party banks. At 31 March 2010, there were no outstanding drawings (2009: £45.4m). Interest is charged on this facility at LIBOR plus 2.00%. The facility matures on 30 June 2012. The undrawn facility at 31 March 2010 was £200m (2009: £154.6m).

Bank borrowings relate to a bilateral bank loan totalling £0.7m due to mature on 28 July 2010. Interest is charged on this loan at the Japanese short term prime rate plus 0.5%.

Other borrowings relate to a loan provided by a minority interest partner totalling £0.5m due to mature on 8 November 2010. Interest is charged on this loan at the Japanese short term prime rate plus 0.5%.

The fair value of borrowings and overdrafts approximate to the carrying amount because of the short maturity of these instruments.

### 17. Share capital and reserves

	As at 31 March 2010 £m	As at 31 March 2009 £m
Authorised share capital		
1,999,999,998,000 (2009: 1,999,999,998,000) Ordinary Shares of 0.05p (2009: 0.05p) each	1,000.0	1,000.0
<b>Total</b>	<b>1,000.0</b>	<b>1,000.0</b>

	Number	£m
Allotted, called up and fully paid share capital		
Ordinary shares of 0.05p (2009: 0.05p) each		
As at 1 April 2009	433,137,430	0.2
Allotted on exercise of options during the year	1,887,352	–
As at 31 March 2010	435,024,782	0.2

77,215 of the 0.05p Ordinary Shares in issue are held as treasury shares.

A share repurchase programme commenced in January 2005 and since then a total of 79,063,397 ordinary shares have been repurchased and subsequently cancelled. This represents 15.8% of the original issued share capital at a total cost of £351.8m. The nominal value of the shares was £39,532 and has been transferred to a capital redemption reserve and the retained earnings have been reduced by £351.8m since this date. During the year to 31 March 2010, no ordinary shares were repurchased and subsequently cancelled by the Company.

The cost of own shares held in the Burberry Group ESOP Trusts has been offset against the profit and loss account, as the amounts paid reduce the profits available for distribution by the Burberry Group and the Company. As at 31 March 2010 the amounts offset against this reserve are £2.0m (2009: £4.5m). In the year to 31 March 2010 the Burberry Group plc ESOP trust has waived its entitlement to dividends of £0.2m (2009: £0.3m).

During the year no profits (2009: £0.6m) have been transferred to capital reserves due to statutory requirements of subsidiaries. The capital reserve consists of non-distributable reserves and the capital redemption reserve arising on the purchase of own shares.

## NOTES TO THE FINANCIAL INFORMATION

### 17. Share capital and reserves (continued)

	Other reserves			Total £m
	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	
Balance as at 1 April 2008	(5.8)	37.8	26.6	58.6
Other comprehensive income:				
Cash flow hedges – losses deferred in equity	(27.4)	–	–	(27.4)
Cash flow hedges – losses transferred to income	16.7	–	–	16.7
Foreign currency translation differences	–	116.7	–	116.7
Tax on other comprehensive income	3.1	(4.3)	–	(1.2)
Total comprehensive income for the year	(7.6)	112.4	–	104.8
Transfer between reserves	–	–	0.6	0.6
Balance as at 31 March 2009	(13.4)	150.2	27.2	164.0
Other comprehensive income:				
Cash flow hedges – gains deferred in equity	0.4	–	–	0.4
Cash flow hedges – losses transferred to income	16.9	–	–	16.9
Foreign currency translation differences	–	(7.3)	–	(7.3)
Tax on other comprehensive income	(5.0)	(6.6)	–	(11.6)
Total comprehensive income for the year	12.3	(13.9)	–	(1.6)
Balance as at 31 March 2010	(1.1)	136.3	27.2	162.4

### 18. Capital commitments

	As at 31 March 2010 £m	As at 31 March 2009 £m
Capital commitments contracted but not provided for:		
– property, plant and equipment	2.7	1.2
– intangible assets	0.7	0.5
Total	3.4	1.7

Contracted capital commitments represent contracts entered into by the year end and future work in respect of major capital expenditure projects where activity has commenced by the year end relating to property, plant and equipment and intangible assets.

### 19. Contingent liabilities

Under the GUS Group UK tax payment arrangements, the Group was jointly and severally liable for any GUS liability attributable to the period of Burberry Group's membership of this payment scheme. Burberry Group's membership of this scheme was terminated with effect from 31 March 2002.

## NOTES TO THE FINANCIAL INFORMATION

### 20. Business combinations

On 1 October 2009 the Group formed Burberry India Private Limited (Burberry India), a company registered in India, with a third party company registered in India, Genesis Colors Private Limited. Burberry India will manage all Burberry retail and wholesale distribution within the Indian market.

Burberry has a 51% interest in the issued share capital of the company, the majority of the voting rights and the power to appoint the majority of the directors. Burberry India has been consolidated as a subsidiary as at 31 March 2010. The minority interest in the consolidated net assets of this company has been identified as a separate component of equity.

On 28 January 2010, the Group terminated its franchisee agreement in India and Burberry India acquired the Burberry retailing business from the terminated franchisee. This business contributed revenues of £0.4m and a loss of £0.3m to the Group for the period from acquisition to 31 March 2010.

If the business combination had occurred on 1 April 2009, the acquisition would have contributed £2.1m to revenue and an operating loss of £1.0m for the full year to 31 March 2010.

Details of the net assets acquired and goodwill are as follows:

	£m
Cash paid	2.0
Total purchase consideration	2.0
Fair value of net identifiable assets acquired	1.4
Goodwill	0.6

The goodwill arising on the acquisition, which is included in intangible assets, is attributable to the acquisition of the Indian business assets and the benefits expected from further expansion in this region.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount £m	Fair value £m
Inventories	0.7	0.4
Property, plant and equipment	1.0	0.8
Receivables	0.3	0.2
Net identifiable assets acquired	2.0	1.4
Net identifiable assets acquired attributable to minority interest		0.7

	£m
Outflow of cash to acquire business, net of cash acquired	2.0
Cash consideration	2.0
Direct costs relating to acquisition	–
Cash outflow on acquisition	2.0

## NOTES TO THE FINANCIAL INFORMATION

### 21. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The related party transactions relate to total compensation paid to key management, who are defined as the Board of Directors and certain members of senior management, and a loan from a minority interest partner.

The total compensation paid to key management during the year was as follows:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Salaries and short term benefits	8.6	4.7
Post-employment benefits	0.3	0.4
Share based compensation	4.0	1.8
Total	12.9	6.9

The aggregate cost to the Group of the exercise of share options and awards to key management in the year to 31 March 2010 was £5.2m (2009: £1.5m).

During the year Mitsui & Co Limited, a minority interest partner in Japan, provided a subsidiary company with a loan totalling £0.5m. The loan is due to mature on 8 November 2010. Interest is charged on this loan at the Japanese short term prime rate plus 0.5%.

### 22. Foreign currency translation

The results of overseas subsidiaries are translated into the Group's presentation currency of Sterling each month at the weighted average exchange rate for the month according to the phasing of the Group's trading results. The weighted average exchange rate is used, as it is considered to approximate the actual exchange rates on the date of the transactions. The assets and liabilities of such undertakings are translated at the year end exchange rates. Differences arising on the retranslation of the opening net investment in subsidiary companies, and on the translation of their results, are taken directly to the foreign currency translation reserve within equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The principal exchange rates used were as follows:

	Average rate		Closing rate	
	Year to 31 March 2010	Year to 31 March 2009	As at 31 March 2010	As at 31 March 2009
Euro	1.14	1.12	1.12	1.08
US Dollar	1.60	1.42	1.52	1.43
Hong Kong Dollar	12.55	12.79	11.79	11.10
Korean Won	1,917	1,967	1,718	1,967

The average exchange rate achieved by Burberry Group on its Yen royalty income, taking into account its use of Yen forward foreign exchange contracts on a monthly basis approximately 12 months in advance of royalty receipts, was Yen 154.0: £1 in the year to 31 March 2010 (2009: Yen 213.1: £1).

### 23. Adjusted operating profit and exceptional items

Exceptional items are those items that are largely one-off and material in nature. These items are added back/deducted from operating profit/loss to arrive at adjusted operating profit/loss which is disclosed in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business.