

FINAL TRANSCRIPT

Thomson StreetEventsSM

BRBY.L - Interim 2009 Burberry Group plc Earnings Conference Call

Event Date/Time: Nov. 17. 2009 / 9:00AM GMT



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PRESENTATION

Angela Ahrendts - *Burberry Group plc - CEO*

Good morning. This morning, I'm going to make a few introductory comments, mainly around the revenue performance. I'm going to turn it over to Stacey then who will talk about profits and cash flow. And we do have a special guest here today, Paul Price, who is our Senior Vice President of Non-Apparel, and he's going to update you specifically on how we've been positioning our large leather goods as the second core category now alongside outerwear.

Paul's been with Burberry since November of 2007, and we actually imported him from America where he has extensive experience with large specialty retailers in that market.

We're going to show you a little -- a couple of DVDs this morning, and then I'll also give you an update on some of the growth initiatives that we'll continue to execute as we build brand momentum, and then Stacey and I will take your questions.

So in what remain challenging markets, Burberry delivered a strong financial performance in the first half. Revenue grew 6% reported, comp store sales increased 2%, adjusted profit before tax was GBP83 million, with better retail and gross margin trends in the second quarter.

And we have a strong financial position. Inventory was down 40% at constant exchange rates, and we ended the half with net cash of GBP56 million. This has enabled us to continue to invest in growth initiatives, as you'll hear a lot about this morning.

And the Board's also decided to increase the interim dividend to reflect the momentum in the business, and our confidence in the long-term growth potential of the brand.

While the team continued to drive efficiencies in the first half, they remained even more focused on executing our key strategies.

So as we've already reported on revenue, I'll call out just the highlights on the following few slides.



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Total revenue was up 6% reported, or down 5% at constant exchange rates. Retail, which is often a leading indicator, grew by 14% underlying in the period, while Wholesale and Licensing declined as guided.

By channel, Retail contributed 54% of sales, and again, comp store sales increased 2% in the half, with an improved performance in the second quarter with comps up 5%. This reflects a great response to the Autumn/Winter collections, especially in Non-Apparel, which Paul will touch on shortly.

Digital commerce, although small, continues to outpace all other channels, ending the half up 50%. At the same time, we continued to enhance the quality of our real estate portfolio, with renovations in key flagship markets, such as New York, Tokyo, London and Hong Kong. We've closed six underperforming stores as a part of the global cost efficiency program, and we've opened 23 new directly operated stores and concessions.

These openings included new flagships, such as Ion Orchard in Singapore, where we had a really terrific launch event a couple of weeks ago, and we continue to test and trial new concept stores, such as our children's stores in Hong Kong and Beijing. And the first London and Brit concept stores will open later this month at 444 Madison Avenue, our new headquarters in New York.

We expect to open about 15 mainline stores this year, adding 8% to 10% in space growth, and over the next three years, we believe the opportunity exists to continue to add about 10% new space growth per year.

Wholesale revenue in the first half came in slightly better than guidance, down 23% at constant exchange rates, 10% down from our own actions as we explained in the announcement, and 13% down as Wholesale customers in all regions around the world procured cautiously.

For the second half, we're expecting Wholesale revenue to be down around 15%, again, about half from our own actions and about half reflecting the continued weakness in the remaining business in Spain. If we exclude these two, then Wholesale demand for the global collection is expected to be broadly unchanged year-on-year. And within this, the US is an area of relative strength as we continue to perform well and gain real estate with our large department store partners.

And remember, many of our emerging markets, including China, are also reported in the Wholesale numbers.

Should sales be better than we and our Wholesale customers have planned, we do have the opportunity to fulfill replenishment and in-season reorders, as well as deliver new season merchandise earlier, something we couldn't have done a few years ago before we invested in supply chain merchants and planning teams.

Licensing revenue was down 6% on an underlying basis, but up 13% reported, benefiting from the hedged yen rate. As planned, we have now served notice to terminate the final few Menswear licenses, and as you know, we've amended the Japanese apparel license, and Stacey will talk to you about the benefits of that shortly.

We also continue to work more closely with our three strategic global license partners to ensure continued innovation, as this slide shows.

This chart shows revenue by region, and illustrates the different trends we've already reported on for the first half; growth in Europe and Asia, down in the Americas. In Spain, sales were down 37%, over half of this due to our decision to close the Thomas Burberry division, but the economic environment is still difficult, and the number of independent domestic retailers we sell to is continuing to contract at the rate of over 10% a year.

And as you're aware, we've already significantly reduced the cost base in Spain, and we continue to focus on new product initiatives and on further efficiencies in that business model.



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So what I'd like to highlight briefly this morning is how we're protecting and investing in our core businesses, while at the same time, identifying growth opportunities in new markets.

So in Europe, in the flagship markets, we're refurbishing stores, testing new formats, and converting concessions, while opening new stores in markets such as Amsterdam. We're extending our reach by expanding into Eastern and Southern Europe, either directly or through franchised partners as appropriate.

In the Americas, we've stayed the course with our original strategy, and our core Retail and Wholesale business is back on an improving trend. We now have three stores in Canada to complement our department store presence there, and Mexico grew strongly in the period, selling mainly through department stores and three franchise stores there.

We closed our franchise operations in South America, and are finalizing the business plan for Retail and Wholesale expansion in this very complex but high growth market.

In Asia Pacific, our core markets are showing exciting growth. We highlighted Korea as an area of particular strength in the half, and Hong Kong accelerated nicely in the second quarter. Our franchise partners opened seven stores in China, bringing the total to 44. 34 of them are in cities with over 5 million people, and we said last year we believe there's scope for more than 100 stores in China in the medium-term. And we continue to expand in smaller markets like Australia, Singapore, and even Vietnam.

And in the Rest of the World, in India, we're seeking government approval to establish a joint venture. We currently have two stores here and will add to this appropriately as the luxury market in India continues to evolve.

This is another example of moving a franchise agreement to a joint venture following Burberry's Middle East transaction a year ago. And we continue to selectively establish new franchise agreements, the two most recent being in Mongolia and Lebanon.

Overall, in the first half, sales in emerging markets were 10% of revenue, up from 9% a year ago.

As you can see, Non-Apparel was the strongest performing product division in the first half, driven in part by our retail stores. In Childrenswear, which we still believe can be 10% of sales, we saw excellent growth in the half, even with some production growing pains.

And despite being hit by Wholesale destocking, our large men's and women's apparel businesses continued to outperform many peers, specifically in our heritage outerwear.

One of the most exciting developments in the first half was our decision to bring greater product delineation to our large apparel segment. With Menswear now coming back in house, a great track record in Womenswear, and the Beat Check branding driving sales, we felt it was the optimal time to further delineate our tailored or Burberry Brit London collection from the more casual collection which we relabeled Burberry Brit.

So why did we choose to rebrand our casual offer, which is the largest apparel segment, in the height of a recession while some of our peers were retrenching and re-pricing?

First, we wanted to connect this large casual component to our consistent more modern aesthetic, respecting the core customer while attracting a new, younger luxury consumer to the brand.

Two, we wanted to further contemporize the casual offer and introduce our authentic heritage icons, the Trench and the Check also to a new younger customer, while launching new growth categories, such as Denim.

And three, the rebranding gives us the opportunity to expand real estate with Wholesale customers, as well as the ability to test another small store format to drive global retail growth.



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As this slide shows, to create awareness in advance of the current Autumn/Winter advertising campaign, we separated by label. You'll note the prominence of outerwear, which accounts for about half of the apparel sales, and not only is it our foundation, but it also has higher average selling prices and much lower fashion risk.

Although Spring/Summer '10 is the first time our products will carry the new label, we've been introducing it to the Wholesale customers, and the response has been great, particularly with our department store partners.

For example, Saks in New York has already opened women's London shop-in-shop, and the new Brit shop is opening this spring, and Harvey Nichols in London has also already opened separate Brit and London shops this fall. Again, the new labeling is just hitting the floors this month for the first time.

As I mentioned earlier, the first London and Brit retail concept stores also open this month in New York at the headquarters.

But before I hand over to Stacey, let me share with you a short DVD which shows how this rebranding of our casual business has also been supported by the re-launch of the Burberry Brit fragrance this season.

(Video playing)

Stacey Cartwright - Burberry Group plc - EVP and CFO

Thank you, Angela. Good morning, everybody. I'll start by giving you the financial highlights.

The revenue, as you heard, was up 6% to GBP572 million. As expected, both adjusted and reported profit before tax were lower than last year, reflecting the challenging economic environment, but we had a better second quarter retail and gross margin performance which, coupled with cost efficiencies, brought the profit number in ahead of initial expectations.

Adjusted earnings per share fell by 11%, and as you heard, we've increased the interim dividend by 4% to 3.5p per share to reflect both our strong financial position, and the momentum in the business.

This slide shows how adjusted operating profit moved to GBP86.3 million in the half, reflecting firstly an FX gain of GBP6.7 million. That represents a small negative in Retail/Wholesale, and a GBP7.8 million gain in Licensing, mainly relating to the hedged yen rate. We're expecting a similar FX gain in Licensing in the second half.

At constant FX rates, Retail/Wholesale and Licensing profits were, as expected, lower, as the underlying revenue decrease dropped through to profits.

As ever, we look at the Retail/Wholesale and Licensing P&L separately, as they have such different P&L characteristics.

So looking first at Retail/Wholesale, revenue was up 6% reported, but down 5% on an underlying basis as the growth in Retail only partially offset the 23% loss of revenue in the higher margin Wholesale channel.

Gross margin as a percentage of sales was down 30 basis points, and this was a much better performance than expected, and I'll talk about this shortly. However, operating costs increased as a percentage of sales, as we flagged at the prelims in May.

EBIT was down in the first half for two main reasons. Firstly, the direct impact of the 23% decline in underlying Wholesale revenue, and secondly, the extreme swing we've seen between channels in the period. Retail was 54% of sales in the first half of this year compared to 45% last year. And while this swing does boost gross margin, it does hinder both the operating expenses to sales ratio, and the EBIT margin, as we've discussed in the past.

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So let me now look at the drivers of Retail/Wholesale gross margin.

The gross margin declined by 30 basis points year-on-year. Although we'd guided for it to be down year-on-year, this is a better performance than we thought, as sales in the largely full price second quarter were stronger than expected. H1 versus H1, the main factors behind the gross margin movement were, firstly, the positive impact stemming from the cost efficiency program; that's around GBP10 million, or 200 basis points; the shift from Wholesale to Retail accounting for another 100 basis points or so; a positive FX impact; all offset by higher inventory clearance than in the comparable period of 2008, which was clearly pre the global slowdown.

As we look forward to the second half, we'd expect to see a significant improvement in the gross margin H2-on-H2. Remember that the second half last year saw a drop of 880 basis points as we cleared excess inventory. We start this second half with much lower inventory, having procured far less for Autumn/Winter '09 and Spring/Summer '10, which will mean fewer markdowns, impacting comp sales but benefiting gross margin.

The mix shift from Wholesale to Retail will continue to be a significant factor in the second half gross margin rebound.

So Retail/Wholesale, our operating expenses revenue was up 350 basis points. When we last met in May, we explained that operating expenses as a percentage of sales would increase this year. In the first half, operating expenses were up GBP31 million. It's perhaps easiest to explain this in pounds millions.

First, the cost efficiency program delivered savings of around GBP12 million, including reducing our headcount by over 1,000. Secondly, exchange rates increased our operating expenses by a little over GBP20 million. And thirdly, the shift to Retail, including the new space and the new ventures in the Middle East and Japan, added around GBP20 million to the cost line.

And finally, remember that in the first half last year, we largely eliminated bonus and share scheme accruals in the face of the economic downturn, and we've reinstated these charges at this half-year based on our best estimates of likely full-year outturn.

These factors, combined with the deleverage impact of lower Wholesale revenue, also explain why the operating expense ratio has increased in the first half.

With the continued mix shift to Retail, and the full-year impact of the bonus and share scheme accruals, we'd expect the Retail/Wholesale operating expense ratio to remain in the high 40% for the full-year, although clearly, this does depend on sales out-turn.

So looking now at the Licensing P&L. Sales were down 6% on an underlying basis, as Angela already highlighted, while the operating profit margin was in line with last year at 85.7%.

Last month we announced we'd amended the apparel license agreement with Sanyo Shokai and Mitsui. Just to remind you, historically we've been paid royalties by our licensees on the level of output, not sales, and there were minimum annual thresholds. Given the current difficult market environment in Japan, we knew it was not in the best interests of the brand to potentially overproduce, so we've worked with our licensees to control production, inventory and distribution to protect the brand in Japan.

And the chart on the left here illustrates the output minimums; remember we need to move the calendar years to our fiscal years when looking at our profits.

So calendar '08 that you see, the first bar is actual output. Calendar '09 and '10 are the levels on which we receive royalty payments even though we have released our licensees from the obligation to actually manufacture to that level given the sales downturn in Japan. But from calendar year 2011, we revert back to normalized production and we receive higher minimum royalty payments going forward, based on the output levels shown on the chart.



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For us the amendment means more profit from the region in the near-term. It's GBP4 million more this year than previously expected, with a similar step-up in '11/'12 when the output minimums increase again. And of course it brings us greater strategic flexibility as the license now expires in 2015, that's five years earlier than previously, with no right of renewal, thereby giving us full optionality on how to operate in this strategically important market.

Looking at the income statement below the GBP86 million adjusted operating profit, the GBP4.2 million restructuring charge is the balance relating to the global cost efficiency program. You'll remember we charged GBP54.9 million in the second half of last year, and this brings the total to just under GBP60 million, as we indicated back in January.

Our net interest charge increased slightly, reflecting the lower interest rates on our cash positions, charges for commitment and other fees relating to our GBP260 million bank facilities, and also fees relating to the early repayment of fixed-charge borrowings. For the full-year we're expecting a charge of about GBP5 million.

In the first half, based on our estimate for the year, the tax rate on adjusted profits is 27% compared to 29.5% underlying last year. Remember the tax rate on reported profits in the first half last year did benefit from a prior year adjustment.

And finally the minorities charge relates to our partners' share of income from Burberry Middle East and the Japanese Non-Apparel JV.

So turning now to cash flow. We are delighted with our progress on cash generation in the first half. In a period where traditionally we would have a seasonal cash outflow, we've managed working capital particularly tightly, increasing our cash balance by nearly GBP50 million over the past six months, and compared with GBP114 million of net debt that we had at September '08 we've seen GBP170 million improvement, driven largely by our inventory reduction of over GBP100 million.

So turning to the component parts of the cash flow, as I said, a key contributor to this performance was inventory, down to GBP215 million as at September '09, over GBP100 million lower than at the same stage last year. Year-on-year this represents a 40% decrease at constant exchange rates despite a 12% increase in selling space.

This improvement comes from both lower procurement and the successful sell-through of current season stock and aged inventory, all of which was facilitated by the investments we've been making over the past couple of years in supply chain, IT and the merchandising and planning teams.

Inventory is now at a more normalized level and we would expect to see it now move more broadly in line with revenue growth from here on in.

Secondly on this slide, the depreciation charge was GBP24 million in the first half; we're now expecting about a GBP50 million charge in the full-year, lower than previous guidance, due to FX and revised phasing of projects.

And moving down the cash flow statement, in the first half CapEx was GBP32.5 million, down on last year when we had the build costs of the new Horseferry House, London headquarters. And for the full-year we're now expecting to spend around GBP70 million, including around GBP3 million for the Japanese Non-Apparel joint venture which Paul will discuss, and some additional refurbishments in key flagship markets.

With dividends flat on last year, our cash position at the end of September was nearly GBP50 million better than six months ago.

And finally this slide summarizes our guidance for the remainder of the year, most of which I've already touched on. As we look forward to the second half, the key variable is Retail comp store sales which, as you know, we never give guidance on. However as you do build your models, you might just want to bear in mind the following factors.



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In the first half we did see very different trends in the individual regions. In the second half last year we saw extreme volatility in some markets, which will naturally impact comps this year. And whilst we do have weak comps in some markets in the second half, don't forget that we also cleared a lot of inventory through the fourth quarter last year, which provided revenue, but negatively impacted gross margin. With our healthy inventory position, this won't be repeated this year.

Our priority for the second half is rebuilding margins rather than chasing sales, which is good for both the brand and our financial performance.

Now I'm delighted to hand over to Paul Price, who's our Senior Vice-President of Non-Apparel, who's achieved great things with his team since he joined us two years ago.

Paul Price - Burberry Group plc - Senior VP of Non-Apparel

Thank you Stacey. Good morning everyone. As Senior Vice-President, I am the chief merchant of Non-Apparel. If Christopher and his team are the art behind the collections, then my team is the science, or the commerce, behind Non-Apparel. We ensure that the collection accurately reflects Christopher's design vision while also ensuring that the collection is innovative but commercial and that our margin and inventory goals are met.

I work to ensure that our retail source and our wholesale partners are buying into the Burberry vision and that our supply-chain team is then delivering the right products at the right time, with the best quality and the highest possible margins.

This morning I'd like to update you on the tremendous progress that the Non-Apparel team has made most recently, one of our key growth initiatives. As you can see from the chart, Non-Apparel sales are approaching GBP400 million annually, and have doubled in the last five years.

Last year Non-Apparel was 33% of total Retail and Wholesale revenue and for the first half of this year is up to 34%. By channel, sales of Non-Apparel are slightly skewed to Retail compared to the Group as a whole, while sales by region are similar to the Group.

By category, based on the order book for Autumn/Winter 2009, and Spring/Summer 2010, you can see how important Large Leather Goods, mainly handbags, are to us, making up half of Non-Apparel. Soft, by which we mean scarves and mufflers, but also hats, umbrellas and scarves, is the next largest category, followed by Small Leather Goods and Shoes, both areas where we see great growth opportunities.

Children's Accessories are largely untapped for us, but will be a key focus going forward. These will be reported within the Childrenswear division.

As we saw, Large Leather Goods, or LLGs, are now half of Non-Apparel, and they are its life blood and they are the backbone of Non-Apparel. They're what our customers first see when they walk into our stores. LLGs and Handbags are fast becoming the second core offering in Burberry, alongside Outerwear. In other words, iconic handbags are to Non-Apparel what our trench coats are to Ready to Wear. We want Burberry to be as well known for our iconic handbags as we are for our trench coats.

Outerwear and LLG share many characteristics. Both show good relative growth, both have high average selling price, of which we've remained true to our price positioning this past year. Both have a relatively low fashion risk as the core sales run from one season to another, which leads to high margins. And most importantly, both are the center of our drive for replenishment, as I will tell you about shortly.

Despite good momentum in the business over the last couple of years, we are still small in Large Leather Goods compared to our peers, as you can see from the chart on the left.



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So how are we capitalizing on this opportunity? As ever, product innovation is key, and we constantly strive to ensure that our assortments are more compelling than the previous season's, at the same time protecting the core. And this core product is more relevant now than ever as authenticity, values and heritage are the new must-haves.

We continue to introduce new shapes and sizes in bags. Witness The Sling, a smaller bag, which went down the runway in Spring/Summer 2010 and is now available in all of our collections.

And we've increased our focus on our fashion capsule collections. These are based on our core icons, but change from season to season, with heightened innovation by adding color and embellishments, such as rivets and metal design details, to our Haymarket Collection, and hearts to our Nova Collection, as illustrated on this slide.

Because they are generally only offered for one season, they are a buy-now category, with higher price points, higher sell-through rates, and higher margins. They also bring excitement to the core collections by adding depth to our product ranges in-store. And as they are layered into existing space, they also help to drive store productivity.

From our first capsule in Autumn/Winter '07, these fashion collections now account for anywhere between 15% to 20% of our Handbag sales.

Our second opportunity in LLGs, now that we have the product right, is to partner more closely with department stores, which is perhaps the greatest key to unlocking growth. We've had some early successes with our partners, like Harrods, where we have already doubled our space on the ground floor, and are about to open a second accessory space on the lower ground floor this month.

But there is still huge scope, in the Americas in particular, to get the additional hard shops that this brand merits.

As we grow our presence in Large Leather Goods, this opens up the opportunity for us in Small Leather Goods, or SLGs. SLGs are important for all luxury players as they're the entry price-point to the brand. They are great gifts and can be cross-merchandised effectively with other products in the store.

Although we have seen good growth in SLGs, our competitor analysis suggests that best-in-class luxury brands sell between two and three SLGs per handbag, and we currently sell less than one.

So how do we close the gap? First, we've developed a more comprehensive offer, especially in wallets and coin purses. Second, we've developed a new expanded gift range. And finally, we've improved the presentation in-store, moving SLGs from being hidden in glass display cabinets two years ago, to being easily accessible through our stores and cross-merchandised with our Large Leather Goods and Apparel where appropriate.

We expect these initiatives to drive growth, especially in Asia and Japan where SLG business is under-penetrated.

In 2008 Angela set me the task of growing Shoes to 10% of Group sales in five years. Currently they're a bit off our plan. As you know, the department stores are our main channel to market for Shoes. When they cut back orders last year, we think we were more impacted than the larger, more established brands, as we are a small player. But we still believe there is great opportunity in Shoes.

As you can see from the chart on the left, we are still small, both in comparison to our peers and in our penetration rates. Women generally buy more shoes than they do bags, while our ratio is about one pair of shoes to every two bags.

So, what are we doing about it? We've been strengthening the shoe offers throughout the product pyramid, and ensuring greater cohesion with our Non-Apparel and Apparel products. We have a strong foundation in lifestyle products such as wellies, trainers and Nova Check, which we continue to innovate constantly.



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We've also been building on key shapes which we are known for, such as the wedge, the ballerina and the riding boot, and developing a core wear-to-work offer across all colors and fabrications.

And we've seen some great success with our Runway shoes. The crepe soled boot pictured here has already sold out in the UK and on net-a-porter.com for example.

So the momentum of the brand, as demonstrated by Runway, coupled with the strength and team with category expertise, better in-store disciplines, and more product innovation, gives us confidence that we can grow Shoes to 10% of sales in the medium-term. Especially as we expand our focus from just women's shoes to children's and men's over time.

And no presentation on Non-Apparel would be complete without a few words on Soft Accessories, our highest margin business.

We've evolved this category from an iconic cashmere scarf and muffler collection to one that is more seasonless, using lightweight blends of silk, cotton and cashmere, and more modern shapes, sizes and colors. These new blends now account for nearly 25% of sales at retail in Soft. We have developed ranges of hats, gloves and umbrellas to coordinate with both our core icons and our fashion capsules.

And in Soft we do a high percentage of sales, around 40%, in replenishment styles, which increases our efficiency.

Finally GBP2 is now given to the Burberry Foundation for every iconic cashmere muffler sold, part of our dedication to be a great company, as well as a great brand. The Burberry Foundation is committed to helping young people achieve their goals and potential through the power of creativity.

Part of my role is to work with the regions to ensure we maximize our Non-Apparel revenue around the world, so I've just returned from Japan where our Non-Apparel JV is now operational and selling our global product. The team of about 40 people has been further strengthened in marketing, merchandising, retail operations and PR, and has just moved into a new fabulous headquarters building in Ginza, Tokyo.

We've taken control of, and refurbished our Omotesando flagship store which was previously run by our partner. This store, which opened in late September, showcases the global Non-Apparel collection brilliantly for the first time in this important luxury market.

Although sales are very small currently, we're excited by this opportunity. The Fashion capsule collections are going well, showing how the Japanese consumer is reacting favorably to the newness of the offer in their domestic market.

For spring 2010 we plan to open up to 10 shop-in-shops with appropriate luxury adjacencies, and we continue to negotiate for additional retail locations.

As Stacey mentioned, we're investing in this joint venture both through the P&L and in capital expenditures as we further explore the positioning of the Burberry brand in Japan.

Finally, as we benchmark our performance in Non-Apparel against our peers, we see further opportunities to grow margin through refining and improving our processes and disciplines. Just as we strive to offer more compelling assortments every season, we are constantly challenging and asking ourselves how to do things better every day.

First, we, along with all the product divisions, are benefiting from the data we now have from SAP, enabling better planning and more informed decision making.

Second, we're pushing ahead with the partnership of the global buy. As you know, largely because of our apparel heritage we don't buy centrally but instead have regional buying areas and teams. In Non-Apparel there's less complexity in, for example,



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sizes, so this gives us the greatest opportunity to increase the commonality of what is bought for our retail stores around the world.

We are, however, very careful to keep the ranges broad enough to let our retail and wholesale customers satisfy their regional needs.

This increases efficiencies by reducing the style count in the global buy, leveraging our buying of raw materials and finished goods, focusing our marketing and in-store merchandising on key lines, and being in-stock and what the customer wants, which increases margin and sell-through rates.

As an example of our progress, about 90% of the latest summer market showed consistency between regions, up from only a 20% level a year ago. And the global buy has already led to inventory reductions in Non-Apparel in the first half, and contributed to the gross margin benefits Stacey was talking about earlier.

And finally, let me touch on replenishment, ensuring we never miss a sale in the core lines, which have a significantly higher margin and generally run from season to season. These core lines represent over 30% of our order book, and 40% of our sales at retail.

For this holiday season, both our retail stores and wholesale customers tightened their inventories significantly. To protect growth in Non-Apparel, should business trends be stronger than anticipated, we made a conscious decision to beef up our replenishment stocks of core lines, which have no risk of becoming aged inventory, over-cut the best sellers in Spring/Summer 2010, and make sure we can pull in Spring/Summer '10 merchandise early.

Our investment in replenishment, although we are still far from perfect, has paid off, allowing us to fill in-season orders in Non-Apparel equivalent to 13% of the initial order book so far this season, up from just a 4% level last year.

So in conclusion, our products are strong, our position is consistent, and our team fortified with functional experts. We're confident that we can double Non-Apparel sales in the medium-term with growth by product, such as Shoes and SLGs, by region, especially Japan and Asia, and by channel, getting the hard corners in department stores that this brand merits.

I'm also striving to increasing the margin differential between Non-Apparel and Apparel, which at Burberry is relatively small, given that we have high margin outerwear and casual wear. And this we will achieve through greater scale and applying heightened operational excellence such as the global buy and increased replenishment.

So thank you for your attention, and now Angela back to you.

Angela Ahrendts - Burberry Group plc - CEO

Thanks Paul. So as we said in the statement, we've made, we think, pretty good progress on strategies -- the original strategies that we've had with the Company for the last three and a half years that the team's been together.

Paul just gave you a great insight into what's driving the Non-Apparel strategy, and we thought in conclusion we'd also give you further insight into what's driving what we call the Leverage the Franchise strategy. And I think it's probably been one of the most confusing strategies when we first initiated it, but bottom-line it's been all about building the brand.

So before Stacey and I take your questions, let me just tell you that marketing, the way we organize it around the world, is it's all controlled by corporate, and then we apply it consistently across the regions, the channels and throughout all the media.



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In addition to what we spend directly in marketing, Burberry also benefits from investment in other consumer-facing initiatives. Firstly licensing, which is a contractual spend, is all under our control. And second the value of the editorial we create around the world. So for example, we were on 270 magazine covers last year, and that trend continues again this fall.

I hope you've seen we're on the cover of three Vogues; one August, and UK as well as the US Vogue covers this month. And hopefully you've seen Vanity Fair just on the news-stands. Every issue around the world Rob Pattinson is wearing a Burberry coat. And third, we also benefit from the PR impact of celebrities wearing the brand. For example we've increased our efforts here to support the re-launch of our Menswear strategy.

And finally we benefit from the impact of high-profile events such as Burberry Lights Up New York to celebrate the opening of the Americas headquarters in May, and most recently the return of the Runway show to London, which we estimate generated the equivalent of about GBP8 million in advertising spend, both in media and print and digital.

And as you are aware, digital media is of increasing importance in all industries. WPP estimates that digital will account for about 20% of total global ad spend in about five years' time. Social media is causing huge, huge shifts in consumer behavior. It took Facebook only nine months to get its first 100 million users.

And corporates are shifting spend to digital in all forms as it has greater reach and a much higher, more measurable return on investment than traditional spend.

At Burberry we want to ensure that our brand vision, our passion and our energy are communicated consistently across all forms of media. We continue to focus on the core customer with traditional media spend, but as I mentioned, we also want the brand to be relevant to a new, younger consumer.

In the same way, we've contemporized the Burberry Brit Collection, we're now starting to communicate with this younger demographic through all forms of digital media, digital of course being their language of choice.

So what are we doing? Well we've significantly strengthened our creative and digital marketing teams, recruiting young talented executives who've worked on digital brands like X-Box and their mother tongue is digital.

They're working with Christopher to ensure that the brand's core values are consistently reflected across the digital world, whether it be on burberry.com, Facebook, Twitter or any other social platform.

And we're also already allocating more of our spend from traditional two digital media; at one extreme 40% of our ad spend in Europe for the Autumn/Winter campaign is online.

Another example, our London Runway show was the first event where we fully optimized the digital medium. About 75,000 people were able to watch the show online. This generated 1.2 million Twitter comments, resulting in over 700,000 visitors to the burberry.com site that week; this was an increase of over 20%, compared to an average week. E-commerce sales doubled the following week after the show. And was the retail comp uplift just a coincidence?

Hopefully, you've also read that we've launched a new social networking site, called ArtoftheTrench.com, which now introduces our core iconic trench coat to a younger customer. In the first week alone -- this actually just launched not even a full week ago -- we had 200,000 unique visitors, 3 million page views and most encouragingly, visitors are spending over five minutes on the site.

So, I'd like to show you a short DVD that Christopher's actually showing almost right now in Berlin. He's at the International Herald Tribune Techno Luxury Summit with Suzie Magus and he's on about right now and he's showing exactly the same DVD. They're not quite as digital, we were hoping to stream that to you, but they have no digital at their summit right now. So, a couple of minutes.



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(Video playing)

So, in summary, Burberry delivered a solid sales and profit performance in the half, in what remain challenging markets. But we have a strong financial position, and have increased the interim dividend as the measure of our ongoing confidence in the strategies, the brand and the team.

And while much of the focus was on driving efficiencies in the first half, we continue to protect and invest in everything the consumer sees, whether it's new stores, refurbishment, new ventures, or digital marketing. And at the same time, we've remained true to our vision of being a great Company, as well as a great brand, with further exciting developments in the Burberry Foundation.

And one of the most exciting announcements last week was the appointment of Christopher Bailey as Chief Creative Officer of Burberry. The brand is more cohesive today than at any time in the Company's history. And this is due, in part, to the clarity, consistency and purity of his amazing vision.

So, as you'd expect, we've talked a lot today about the first half results and I wanted to finish this presentation by sharing with you the breadth of the opportunities that Burberry sees for the future.

Well, the last year or so has presented us, as a management team, with the most challenging conditions we've ever had to work through. We have been equally focused on how best to position Burberry for superior growth when the global economy recovers.

We've recently completed a three-year plan, built bottom-up by the Regions and Product divisions, who are now very excited by the challenge of executing it. This review gives us continued confidence in our strategy and growth potential. So let me just summarize a few of the initiatives we're focusing on.

By product, the London and Brit segmentation is a key strategy to drive share gains in our large women's apparel business. You heard today from Paul how we made a good start on doubling our Non-Apparel business in the medium-term. And we've talked before about how Childrenswear will be 10% of sales, and we're half way there. And next you'll hear more about our growth plans for Menswear, building on our heritage, now that all the licenses are ended and the creative direction is in-house.

By channel, we continue to drive productivity in existing stores, while opening mainline stores and testing small store formats with the view to adding 10% space each year for the next three years. While growing Wholesale with large partners in select markets, including emerging markets and the Americas, where we can see scope to double the business in the medium-term. And digital commerce, although small, is the fastest growing channel and offers us unlimited opportunities, especially for this new, younger, luxury consumer.

By region, we're evolving our structure, and driving productivity in core markets, like Europe, US and Asia. And Emerging Markets, now 10% of sales, will grow at a faster rate as we expand in existing markets, and our new markets, and evolve our business model, as we've recently done in India. And we believe there is scope for over 100 Burberry stores in China over time.

This will all be underpinned by delivering efficiencies through further supply chain gains, better integrated systems and planning, and enhanced returns on our marketing spends. All of which will improve gross margin and operating expense leverage, while providing a better experience for our customers.

So, with the strategy sound, the brand in great shape and the worldwide team more engaged than ever, Burberry's well positioned to deliver long-term profitable growth.

Thanks very much and Stacey and I'll now take your questions.



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QUESTIONS AND ANSWERS

John Guy - *MF Global - Analyst*

Morning, John Guy from MF Global. Just a couple of questions please, the first with regards to the OpEx as a percentage of sales, and the guidance there moving to the high 40% for this year. In terms of a three year view, given the fact that you've taken on a little bit more space this year, where can we expect that to normalize? And assuming that it is in the high 40% you must be looking for a Retail/Wholesale gross margin in excess of 60%?

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

I think you've hit the nail on the head there John because it's not about talking about operating expenses, without also talking about gross margin when you look at the Retail/Wholesale mix.

And in fact, you'll notice in the appendix to your packs, I think it's slide, bear with me, 50, right at the very back, we've actually repeated, yes, slide 57, the chart that we put up about three years ago, which shows you the different characteristics that you have through both the Retail channel and the Wholesale channel when it comes to what the gross margin impact is.

So, just to ground you, what this chart shows you is that same product, hence the cost of sales bar is exactly the same size if you get your rulers out, that same product being sold through either the Retail channel, or the Wholesale channel, makes a much higher gross margin through Retail, but carries much higher associated operating expenses.

So, in terms of saying well where are we going to end in terms of a number for the three-year plan, it really depends on what your assumptions are about a Retail/Wholesale mix.

We do know that we continue to drive efficiencies through the business; we do know that we continue to drive the higher gross margin, in any event, as our SVP of Supply Chain will tell you as he sits on the front row. But at the same time, we are looking to drive efficiencies through operating expenses as well.

So, the guidance we're giving you is really just about second half because we know we've still got this mix shift towards Retail in the second half, so we can be more prescriptive about that high 40% as a result.

John Guy - *MF Global - Analyst*

Okay, thanks. And also one for Angela with regards to Japan. There's been quite a lot of commentary recently that obviously the Japanese market is still pretty soft, and yet you seem to be pushing ahead. Obviously, you've got the added benefit with moving away from your licensing business into a new JV style. But do you think that the Japanese market is likely to improve over the mid-term? All the signs are that this is an ongoing weak demographic.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes and far be it from me to call when the Japan economy will turn around. So, we've got a great new team, our imported Non-Apparel has never been available in the market before. We're sharpening up the brand in renovating and taking back the Omotesando store. We are negotiating for other free-standing stores, just for the luxury Non-Apparel in the market.

And again, we've got a phenomenal team of luxury experts in the market now, so they tell us that for something new coming into the market that the customers have never had access to. And in this, again, digital age where that consumer is more tech savvy, I would argue than a lot in the world, there seems to be an appetite, if you will, for a lot of things that Christopher and Burberry are doing today. So, early stages, but we're thrilled so far with the progress.

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John Guy - MF Global - Analyst

And just one final question before I hog the mic. In terms of the low hanging fruit on cost savings, the GBP50 million for this year, I don't know if this is one for Rob to maybe give us an update on whether or not -- how much more is there still to come Rob?

Stacey Cartwright - Burberry Group plc - EVP and CFO

We're not quantifying anything more at this stage; nice try though John. We've delivered the GBP50 million, we continue to drive for improvements throughout the business and we'll be able to deliver those as we go.

John Guy - MF Global - Analyst

Thanks very much.

Stacey Cartwright - Burberry Group plc - EVP and CFO

Okay.

Luca Solca - Sanford C. Bernstein - Analyst

Luca Solca from Sanford Bernstein. Three questions if I may. On the Retail growth strategy you mentioned 10% growth for the next two or three years, per year. How is this going to be articulated across concepts? We were hearing today that you're experimenting new retail concepts for the Burberry Brit brand, for example. And then you were talking also about corners for the accessories range. So I was wondering how this is going to play out?

And also an observation on this guidance, do you see this as cautious? Because considering the brand momentum and the opportunity you have to grow in several markets, this would probably be, at least in my view, sounding on the cautious side.

On the Emerging Markets' strategy, do you foresee more markets like South America, for example, where you would be taking control of those geographies and the most promising ones, for example, in Asia? And do you foresee any investments in this direction, going forward?

And third, your exposure to the American market, do you see signs of a reviving demand in this market, which has been relatively weak in the most recent quarters? For the industry as a whole, I mean.

Angela Ahrendts - Burberry Group plc - CEO

So, we'll answer three of the four. I'll go ahead and take the first one, which I think was retail space growth and how we see that breaking out. I think it's pretty safe to say that the businesses are breaking down fairly even, if you will, right now. Men's are slightly smaller. And, again, next year we'll talk to you about some of the initiatives that we have in place in Menswear. But if you just roughly assumed a third Non-Apparel, a third Women's, a third Men's. And, of course, you're getting nice growth in Non-Apparel.

But the shop-in-shops that Paul's talking about are really in Wholesale. That's in the US. That's in the big department stores. So we've got a lot of retail concessions already throughout Europe in Non-Apparel, so I would tell you that as we open our own

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stores, of course, Non-Apparel will play. But the big growth in Non-Apparel will be coming from exporting the wholesale opportunity.

We have felt for a while it just wasn't really the optimal time that Burberry Brit -- the casual part of our line that represents about 60% of the total business, and it's one of the highest margin businesses in the Company. And what happens is in the big core markets, a market like America, we've always felt that at about a certain level, the mainline stores would tap out. But we look at peers, who are able to have many more stores, and it's a much smaller format. Our mainline format's about 4,500 square feet.

So we're just going to test a couple of Brit stores. We're testing the one in New York. We're going to test one on the West Coast. We're going to pick a handful of different markets. It's a small store format. It's about 2,500 square feet. Should be highly productive. And we'll put it also in younger areas. Again, Santa Monica's young. There's a couple of sites we're scoping out here in London.

But we've always felt that Brit, as a retail concept, would be a very viable global opportunity, if you will, that doesn't take away Brit in Wholesale as well, where the big department stores realize that we had tailored suiting with polo shirts in the same department.

So by re-labeling now, and based on the performance of, for example, Womenswear, we're able now, with our large department store partners, to actually increase, to pull that out and have two shops instead of one.

I don't think we'll talk about guidance being cautious.

Stacey Cartwright - Burberry Group plc - EVP and CFO

I think we've got a three year plan. We've got enough coming through the pipe to be confident that we think we can add about 10% space growth a year. Obviously, it will ebb and flow according to actual opportunities, but we think that's a reasonable level of guidance to be putting out there.

Angela Ahrendts - Burberry Group plc - CEO

And I think we tried to cover in the presentation that -- I think you had talked about emerging markets or investment in Asia, etc., and we've always said that we'd prefer to invest in our own brand. We'd prefer to own rather than lease, if you will. And I think we tried to get across in the presentation that you could assume that the conversions would absolutely continue, where viable.

And I think the fourth one was our exposure in America.

Stacey Cartwright - Burberry Group plc - EVP and CFO

Do we see reviving demand? It sounded a little bit like a current trading question, which clearly we won't answer. But you will have noticed in the Wholesale guidance, where we talked about demand for the global collection being broadly flat in the second half of the year, which we think is a terrific performance when we know that wholesalers are still destocking, within that, we said that the Americas was an outperformer. So that's probably about as forward-looking as we can go.

Luca Solca - Sanford C. Bernstein - Analyst

Thank you.

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Erwan Rambourg - HSBC - Analyst

Hi. Good morning. Erwan Rambourg from HSBC. Three questions, please. Firstly, on inventories, I think Paul mentioned that for Non-Apparel, replenishment represented about 30% of the order book and 40% of sales. Is this a metric you can give at the Group level? And can you comment on potential risk of missing sales in the next few quarters, given how low your inventories are today?

Secondly, looking at China, China seems to be an obsession from your continental European peers. That's all they seem to be willing to talk about. And it looks as though you're looking to double the number of stores there. Just harping on to the previous question, is there a willingness, a possibility, and a timing for you to take back fuller control of distribution there?

And then, just going back to the gross margin explanation from Stacey for H1, looking at three positives and a big negative, which was essentially clearance, how should we think about H2? And as this negative disappears, should we think that clawing back the 880 basis points is a minimum?

Stacey Cartwright - Burberry Group plc - EVP and CFO

Okay, I'll take the gross margin one first. In terms of the three positives and, as you say, the big negative, being clearance in the first half, but not as big as it might have been, I might point out, as we move forward into the second half we do feel a lot more optimistic about the rebound. We always said there would be a rebound in the second half of this year.

Given that we're entering the period with far lower levels of inventory, and I'll come on to your first question in a minute, we do feel a lot more optimistic. But there won't be the level of promotional activity that there was this time last year. This time last year, we were already on private sale, for example, in the US market. Something similar going on in the Hong Kong market. We're simply not repeating that this year. We don't need to.

What does that mean in terms of inventory? If I now come back to your first question, is there a danger we'll miss sales? Well, this is where the dynamic entrepreneurial merchants come into play. Because not only do they make sure that we stay in inventory on our replenishment items, the majority of which obviously sit within Non-Apparel, within Paul's world, but clearly we also have the strong outerwear replenishment and jersey wear replenishment activities within apparel as well.

Not only do we make sure that we stay in stock on top 50 best sellers across each of the product divisions, but they're also working extremely hard to pull up Spring/Summer '10 deliveries to get newness and freshness into the stores of new products which, again, won't be marked down. So we think that's good news for gross margin as we enter the second half.

Angela Ahrendts; And I think that, as far as China, I think just probably covered in the previous statement. In a perfect world, we'd love to partner closely with -- as we've done everywhere, as we've done in Spain, as we've done in Taiwan. I think that's [been in] the business model the last couple of years. So I think it's not a matter of if; it's more a matter of just when.

Erwan Rambourg - HSBC - Analyst

And is there an expiry of contracts with your current partner?

Angela Ahrendts - Burberry Group plc - CEO

No, it's ongoing. Just a rolling.



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Melanie Flouquet - *JP Morgan - Analyst*

Hi. It's Melanie Flouquet at JP Morgan. I have several questions, if I may. The first one, sorry, is on gross margins again. Could you tell us whether you're actually expecting an improvement H2 on H1? So that's my first question. There will be one negative, which is the ForEx is less favorable, I suspect, in H2 than in H1. But you will have less clearance, so I wanted to get an idea of that point.

The second question is actually a repeat as well. Replenishment, could we have an idea, at Group level, what percentage of sales does this represent today? Where was it last year? And where do you see this coming through over the next few years?

My third question is on, as you rightly said, gross margins and OpEx dynamics depend on the Retail and Wholesale mix. Can we get an indication on EBIT then, of what the differential between Retail and Wholesale currently is? And how do you see this progressing?

And last but not least, the Non-Apparel joint venture, you're starting slowly but surely. You are encouraged with what's happening. Can you give us a bit more idea as to what you're planning into your three year plan for this joint venture over the next three years? Thank you.

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

I think they're all mine apart from the last one, yes?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes.

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

So, gross margin H2 versus H1, there is the opportunity to be better in H2 than H1, but I wouldn't want to definitively say that at this point. But, clearly, the 880 basis point rebound would take us very close to the level that we've reported in H1, so I think you have to watch this space. Let us get through this Christmas trading period and into January and see what position we're in. But, yes, there's the opportunity to improve it.

In terms of Group level replenishment, we can be more definitive about the numbers in Paul's world. That is where you see the majority of replenishment. So the average for the Group is a little bit lower than that.

Melanie Flouquet - *JP Morgan - Analyst*

Would 15% be a good --?

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

It's pretty close, pretty close. And then in terms of the relative EBIT characteristics between Retail and Wholesale, right now, Wholesale has a higher flow-through than Retail does. Clearly, with all of the activity on trying to work on improving productivity in our own stores, we're looking to close that gap. But when you do see this shift mix from Wholesale to Retail, it does deplete the EBIT margin percentage, although obviously not the EBIT in pounds millions terms.



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Melanie Flouquet - *JP Morgan - Analyst*

When do you think you'll bridge the gap on EBIT margin between the two?

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

I don't think that's something that you should look for in the next year, two years. That's quite a long trawl in terms of driving improved productivity in our own stores. We see lots of opportunities for that, but it'll take quite a while.

Melanie Flouquet - *JP Morgan - Analyst*

And can you tell us what the gap is, roughly? Are we talking 500 bps? *

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

It's not as big as that. *

Melanie Flouquet - *JP Morgan - Analyst*

Okay. *

Angela Ahrendts - *Burberry Group plc - CEO*

And as far as Japan is concerned, again, we're not putting a definitive number on three years out. It's an incredibly complex situation, which is why we opted to do a three-way JV with our two existing partners. So there's a pretty big department store growth strategy. That is what Sanyo was helping us execute.

There's a pretty big retail strategy with Mitsui and their whole real estate arm, which they're helping us execute. And we do believe digital could be a pretty big opportunity in the market, and we are not even live any commerce in that market yet.

So, I think you have to almost even look three to five years out. It's not just three years. But I don't think that the President of Gucci left a very large business to start this up with us, planning on it being a little business for the long-term.

Great. Thank you very much.

Stacey Cartwright - *Burberry Group plc - EVP and CFO*

Thanks very much.

* **Editor**

Point of Clarification

The absolute margin differential between retail and wholesale is greater than 500 basis points. The adverse impact on the EBIT margin of the shift from wholesale to retail in the first half 2009 was less than 500 basis points.



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