



**BURBERRY**  
ESTABLISHED 1856

**BURBERRY**  
**AN ICONIC BRITISH LUXURY**  
**BRAND ESTABLISHED IN 1856**  
**LEVERAGES ITS RICH HERITAGE,**  
**PROVEN STRATEGIES AND**  
**TALENTED TEAM, TO ASSURE**  
**SUSTAINABLE, PROFITABLE**  
**GROWTH ON A GLOBAL SCALE.**

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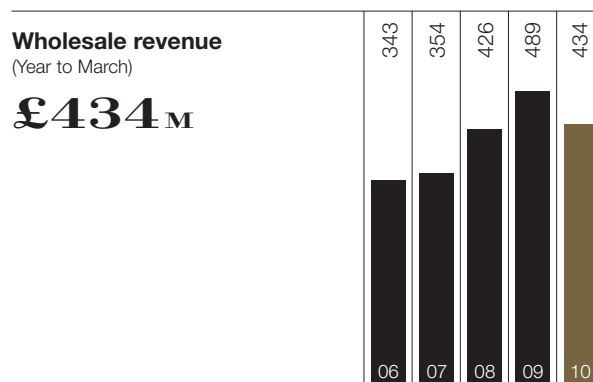
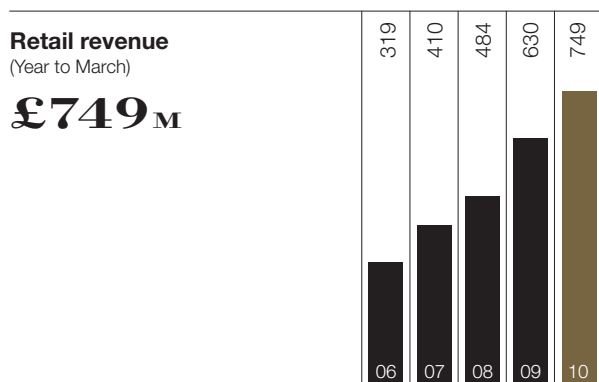
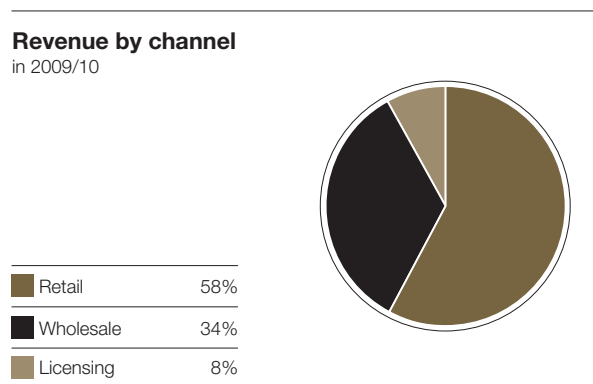
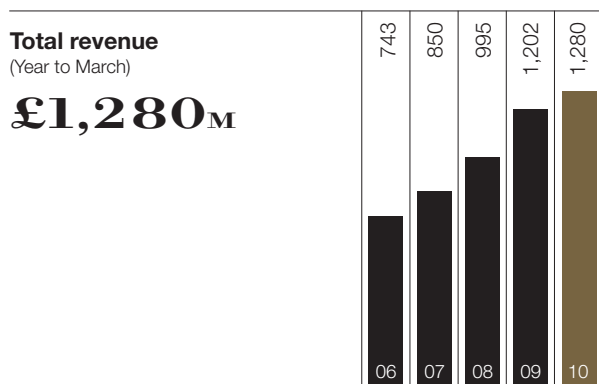
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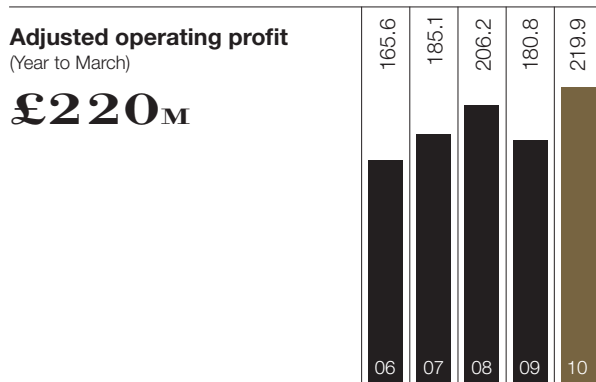




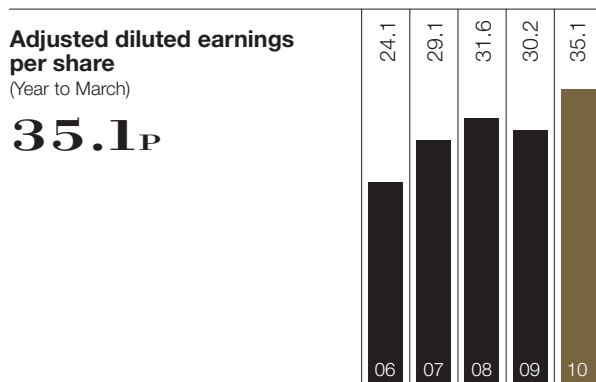
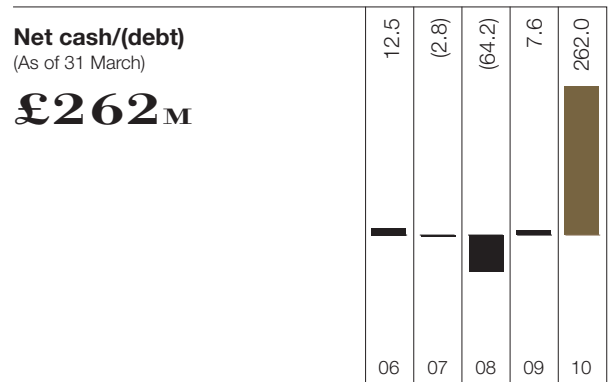


## DELIVERING RECORD PROFITS

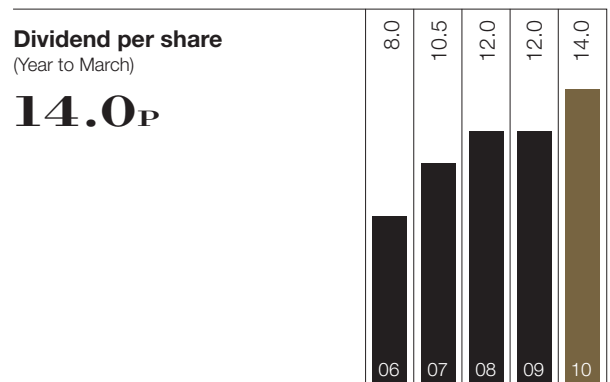




Adjusted operating profit is stated before exceptional items



Adjusted diluted EPS is stated before exceptional items



More information at [www.burberryplc.com](http://www.burberryplc.com)



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In April 2009, Burberry's financial year began in the midst of the weakest and most uncertain consumer spending environment in decades. Within this context, management planned a challenging agenda for the year ahead. On one hand, goals were set with respect to defensive measures, including expense reduction and working capital management. On the other, in keeping with the perceived opportunities and ambitions of both management and the Board, the commitment to invest in the vitality of the Burberry brand and development of the business was maintained. Although balancing the short and long term is a fundamental task of management, the combination of a unique environment and the outstanding prospects for Burberry offered a particularly complex assignment requiring a broad range of executive skill and expertise.

By most measures – strategic, operational and financial – performance was strong. Strategically, important action was taken in the continued effort to address legacy issues with respect to brand integrity. This included upgrading wholesale distribution and restructuring the Group's operations in Spain. At the same time, management projected the brand into the future by establishing a clear leadership position among luxury brands in the digital arena. Operationally, the team executed a £50m cost efficiency programme. These are a few highlights of the year's strategic and operational achievements which this annual report outlines more completely in the pages that follow.

Much of this progress was reflected in the financial results. In a contracting luxury market, Burberry achieved revenue of £1.3bn, a 1% increase at constant exchange rates, 7% reported. Operating profit increased 22% to £220m, while diluted EPS increased 16% to 35.1p – both of these on an adjusted basis. After-tax return on capital remained strong at 28% on an adjusted basis. In light of these results, the Board has recommended a 17% increase in the full year dividend to 14.0p.

In other developments, John Smith, Chief Executive of BBC Worldwide, joined the Group's Board of Directors in December. John's understanding of brands in combination with his media expertise will contribute to Burberry's future advancement.

Relative to luxury peers both public and private, Burberry's performance was among the best in the sector during 2009/10. While the results demonstrate the efforts of many talented individuals, their ability to work closely as a team under these extraordinary conditions may be more the determining factor. I congratulate everyone at Burberry for their teamwork throughout the year. Looking forward, I remain confident that Burberry possesses the brand, strategy and team to continue to prosper in the years ahead.

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**John Peace**  
Chairman









In a highly uncertain consumer spending environment, management and the Board began the financial year planning to stay the strategic course. At the highest level, the Group's primary objectives are the continued elevation and building of the Burberry brand, and ensuring the Company remains firmly on a path of sustained, profitable growth over the long term. During the two and a half years prior to the financial crisis, Burberry's strategies had proven effective at delivering on these objectives. As we moved into 2009/10, our analysis indicated that the fundamentals which had driven expansion of the luxury sector historically were likely to remain relevant. We also believed that Burberry was relatively well positioned for progress under most economic recovery scenarios. In this context, we elected to stay the course.

At the same time, management tailored execution in keeping with existing market conditions. This is captured by the following three themes:

- Maintaining investment in consumer-facing elements. Through investment prior to the crisis, the brand had achieved strong momentum, which had been a clear

driver of Group performance. Management believed compromising on investment in Burberry's consumer-facing elements would restrict both current and future performance. In line with this, we undertook several key initiatives in the year:

- Burberry continued to build sector-leading digital marketing expertise, enhancing the Group's ability to develop compelling content and distribute it effectively. A highlight in the year was the launch of [artofthetrench.com](http://artofthetrench.com), a social media website which introduces the iconic trench coat to the digital generation and is attracting a new, younger customer to the brand.
- We marked the 25th anniversary of London Fashion Week, by relocating the women's Spring 2010 runway show to London from Milan in September. This geographical reconnection of Burberry with its British heritage brought extensive press and editorial coverage. Burberry's reputation as a digital leader was further enhanced with the Autumn 2010 show, which, in addition to live streaming over the internet, was broadcast in 3D in five cities around the globe and allowed consumers to purchase runway items directly for expedited delivery – both firsts in the luxury sector.
- The relabelling of the casual component of the women's and men's apparel lines as Burberry Brit brought greater clarity to the brand's segmentation. This separation from the more sartorial Burberry London portion of the lines allows the businesses to offer more complete assortments in each of these segments and target distribution more effectively.
- Burberry stores are among the best vehicles to communicate the full brand message to consumers. Management selectively added stores in high-potential urban markets and upgraded important stores in prominent locations, as well as opening the first standalone test stores for the Burberry Brit and London lines. In the ongoing effort to improve the customer experience, the Group extended the roll-out of the Burberry Experience, a comprehensive sales and service programme, to all stores worldwide.
- As part of the ongoing strengthening of the important wholesale operations, we opened new headquarters with state-of-the-art showrooms in New York City and Tokyo.
- Emphasising profitability over revenue growth. Historically, Burberry has pursued strong revenue growth while maintaining profitability. In 2009/10, the dramatically slowed consumer environment pressured both gross margin and expense structure with a



leveraged adverse effect on income. Moderating its growth orientation in the near term, management entered the year emphasising profitability over revenue growth.

- To maximise gross margin, merchant teams continued to reduce assortment sizes across categories. This resulted in more focused collections leading to enhanced sourcing efficiencies, more consistent in-store presentation and improved sell-through rates. The teams also revised mark-down policies to capitalise on the less seasonal elements of the collections. Retail/wholesale gross margin increased from 52.1% in 2008/09 to 59.7% in 2009/10.
- Management successfully executed the £50m cost efficiency programme announced in 2008/09. Approximately half of the gains were driven by supply chain and corporate process efficiencies with cost reductions accounting for the remainder.
- Leveraging the investment in systems and planning expertise, the Group improved inventory management in the year. Inventory levels were reduced 36% year over year.
- The Group also undertook the restructuring of the business in Spain against a backdrop of deteriorating performance and the poor state of Spain's economy. While difficult, the closing of that operation in favour of integrating this market with the global Burberry business is in the long-term best interests of the brand.
- Prepared to respond to a changing environment. Recognising that the trading environment was likely to be volatile, management monitored conditions carefully to respond quickly to new opportunities and emerging risks.
  - Although starting the year with a conservative inventory plan, we prepared to respond to changes in demand. As the tone of business improved, management capitalised on supply chain investment and restructuring during the past three years to speed deliveries of future season product. In addition, the *April Showers* capsule collection was designed and delivered to stores through an expedited 12-week cycle – this was similarly enabled by supply chain and systems investments over the past several years.
  - With an improving pace of business, the team used the Group's strong financial position to complete additional attractive real estate transactions, against a conservative plan. In total, Burberry added net 21 stores with 9% space expansion.

- The challenging consumer conditions in Japan afforded the Group the opportunity to amend its largest licence agreement in this market. With the amendment, Burberry has greatly enhanced its long-term strategic options in Japan.

Through these efforts and execution of Burberry's remaining core strategies, the team achieved strong financial results. Total revenue grew 7% to £1.3bn. Retail performed well, increasing revenue 19% on a 7% comparable store sales gain. Driven by Spain, wholesale declined 11%. Licensing increased 18% with a decline in Japan offset by growth in global product licences and favourable exchange rate movements. Adjusted operating profit reached a record £220m, on a 25% retail/wholesale increase. The Group generated £254m of cash, resulting in a £262m year end cash balance.

With the changed operating environment, management also conducted a full review of Burberry's strategic plan during the year. We continue to see opportunities across the product portfolio – whether the heritage menswear business, the young childrenswear division, or quickly developing shoe category. While emerging markets such as China offer great excitement, excellent potential remains in all geographic regions. Penetration of these markets will be enabled by retail enhancements, new store formats and wholesale advances. Ongoing efficiency improvements are also expected to contribute to profit growth.

In renewing our plan to be a great brand, we also updated our aspirations to be a great company. Internally, we continue work to establish Burberry as the leading employer in the luxury sector. During the year, we formed the Leadership Council, a forum to develop the next generation of Burberry's leadership. We also reinforced mechanisms to enhance communication and celebrate our successes as a team. Externally, the Burberry Foundation continued its work to empower the creativity of young people, while our commitments to ethical trading and preserving the environment continued to progress.

Looking forward, Burberry is well prepared to achieve its goals in the years ahead. With a strong balance of analytics and intuition, senior management has added expertise and grown as an integrated team during the past three years. Our teams globally are fully united under our brand. And we thank the extended team – suppliers, large customers, licensing and franchise partners – for their continued support. Together we look forward to reasserting Burberry's growth agenda while continuing to invest in the future of the brand.

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**Angela Ahrendts**  
Chief Executive Officer

**EXECUTIVE TEAM**











## BRAND AND BUSINESS

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From its founding in 1856 when Thomas Burberry constructed his first outerwear garments for the sportsmen of Basingstoke, England, Burberry has become a leading luxury brand with a global business.

The Burberry brand is defined by its:

- Authentic British heritage
- Unique democratic positioning within the luxury arena
- Founding principles of quality, function and modern classic style, rooted in the integrity of its outerwear
- Globally recognised icon portfolio: the trench coat, trademark check and Prorsum horse logo

Today, the business built upon this brand is distinguished by:

- Multi-category competency: womenswear, menswear, non-apparel and childrenswear – with innovative outerwear as the foundation
- Channel expertise in retail (including e-commerce), wholesale and licensing
- Global reach: operations in markets throughout the world, with a balance across major geographic regions
- A unified, passionate and seasoned management team

The Group management and their teams are challenged with the responsibility of maintaining the integrity and vitality of this extraordinary brand while continuing to develop a business which remains relevant to ever-evolving markets and consumer tastes. The following pages outline Burberry's strategy under each of its five key strategic themes.



## LEVERAGING THE FRANCHISE

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Through more coordinated use of brand assets and greater integration of its global organisation, Burberry has the opportunity to enhance consumer responsiveness and operate more efficiently and effectively. This potential lies both in the front and back-of-house operations.

Key highlights in 2009/10 include:

- **Accelerating brand momentum.** Continued investment in the Burberry brand is fundamental to its long-term success. Strategies to enhance and elevate the brand span all consumer-facing platforms, both physical and virtual. 2009/10 included the return of the Burberry womenswear show to London Fashion Week to mark its 25<sup>th</sup> year anniversary, an event that garnered extensive editorial coverage and served as a geographical reconnection of the brand with its British heritage. In stores, the Group continued to roll out the Burberry Experience, a comprehensive sales and service programme. During the year, the brand was featured on the covers of 270 leading publications and once again included on Interbrand's list of the Top 100 Global Brands 2009.
- **Refining product segmentation.** With the relabelling of the casual component of the women's and men's apparel lines as Burberry Brit, management brought greater clarity to the brand's segmentation. This separation from the more sartorial Burberry London line allows the businesses to offer more complete assortments in each segment and to target customers and distribution more effectively.
- **Capitalising on operational improvements.** Investment in operational improvements has allowed greater speed and responsiveness in delivering products to consumers, pointing the way to a further evolution of the Burberry business model that will provide fresh merchandise to stores and online with greater frequency. *April Showers* is one example of this in practice. In mid-January 2010, following a strong holiday season, the merchant and design teams developed a capsule collection to supplement the main Spring 2010 offering, which was then delivered to stores at the end of April.
- **Licence amendment.** In October 2009, the Group announced an amendment to its apparel licence in Japan which better positions Burberry to optimise its presence in Japan and the high-growth Asian region over the medium term.
- **Spanish restructuring.** 2009/10 also saw the restructuring of the Group's business in Spain. Deteriorating performance during the previous two years in combination with the poor state of Spain's economy had resulted in a local operation that was no longer viable. While difficult, the closing of that operation in favour of integrating the market with global Burberry is in the long-term best interests of the brand.





## LEVERAGING THE FRANCHISE CONTINUED

### Leading digital

Through the integrated efforts of its Marketing, Creative Media and IT teams, Burberry has built sector leading expertise in the digital media arena.

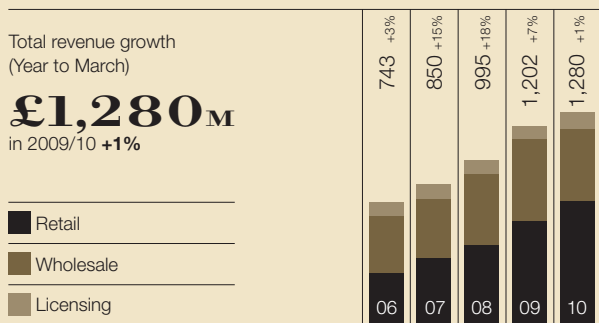
- Live streaming.** The live streaming of the Spring 2010 show invited consumers globally to share the full experience of a Burberry fashion show for the first time. The brand broke new ground by live streaming in 3D the Autumn 2010 show to five locations around the world. The webcast also allowed consumers to purchase runway items for expedited delivery – another first for the luxury sector.
- Social media.** The brand has established a leading presence across social media platforms, creating new communities of interest. Burberry is the leading luxury brand on Facebook with over one million fans. During the year, the Group also launched artofthetrench.com, a social media website which introduces the iconic trench coat to the digital generation and is attracting the new, younger luxury customer to the brand.

### Core Values

The core purpose of the Burberry brand is to protect, explore and inspire. These three values are at the heart of Burberry, its culture and behaviour as a company. The work of the Burberry Foundation and further progress in corporate responsibility demonstrates these values in practice.

- Burberry Foundation.** Dedicated to helping young people realise their dreams and potential through the power of their creativity, the Burberry Foundation provides a strategic platform for the Group's engagement in community initiatives and facilitates charitable giving in regions where the majority of employees live and work. In 2009/10, partially funded by the sale of iconic rainwear and scarves, Burberry donated approximately £1m to the Foundation, supporting 14 innovative charities in eight cities around the world.
- Corporate responsibility.** The Group continued its efforts to improve corporate responsibility performance and to inspire employees with respect to issues of ethical trading, environmental responsibility and community investment. 2009/10 initiatives included a 30% increase in factory visits by Burberry representatives and a reduction in CO<sub>2</sub> emissions per unit of turnover from Group facilities.

**KPI: Total revenue growth** measures the appeal of the brand to consumers, be it through Burberry stores, or those of its department stores or specialty retail customers.



Growth rate is year-on-year underlying change i.e. at constant exchange rates

In 2009/10, in challenging and volatile markets, Burberry's revenue was £1,280m – a 1% underlying increase on the previous year. Revenue in the first half declined by 5% underlying, but grew by 6% in the second half, driven by Burberry's retail stores.

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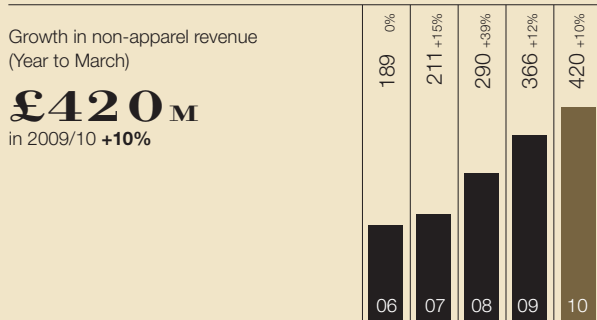
## INTENSIFYING NON-APPAREL DEVELOPMENT

Intensify, focus on and invest in under-penetrated non-apparel categories to further leverage Burberry's unique positioning, design and merchandising expertise and iconic branding through investment in product development, marketing and supply chain.

Non-apparel continues to be a key driver of growth for the Group. For the third consecutive year, it was the fastest-growing product area within Burberry, and continues to offer scope for further gains across a number of under-penetrated categories.

- Large leather goods.** The core of Burberry's non-apparel offering, large leather goods drove non-apparel growth in the year. In line with the continued consumer shift towards a more classic aesthetic, new reinterpretations of Burberry's heritage icons were a key factor in handbags.
- Menswear.** The Group continues to see opportunity in the further expansion of men's non-apparel. Accessory assortments were broadened and upgraded during the year, with small leather goods and belts performing well at retail.
- Soft accessories.** With an intensified and extended assortment, soft accessories led non-apparel growth. The Burberry snood was the hit of the Autumn/Winter season, garnering favourable editorial comment around the world.
- Shoes.** Shoes continue to present significant expansion opportunities. Investment continued in the year with added design and product development.
- Japan non-apparel joint venture.** Established to build the brand's non-apparel business in Japan, the world's largest accessories market, the joint venture became fully operational during the year. The team refurbished Tokyo's Omotesando store and opened nine concessions in prestige department stores.

**KPI: Growth in non-apparel revenue** measures the success of Burberry's initiatives to expand in this category, which includes handbags, small leather goods, scarves, shoes, belts and jewellery.



Revenue is retail and wholesale only. Growth rate is year-on-year underlying change i.e. at constant exchange rates

In 2009/10, non-apparel revenue increased by 10% underlying, compared to 1% for Burberry as a whole. Non-apparel accounted for 36% of retail and wholesale revenue, compared to 33% last year. Handbags, which are core to non-apparel, contributed about half of sales.



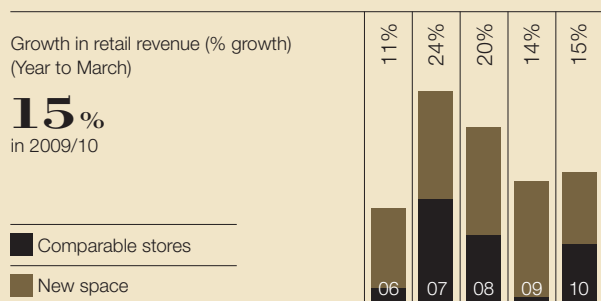
## ACCELERATING RETAIL-LED GROWTH

Shift company culture and processes from a static wholesale model to a dynamic retail model. Retail-led growth refers not only to the operation of Burberry's own stores, but also to a fundamental shift in the Group's operating structure.

2009/10 saw progress in several areas:

- New store openings.** While new store development was planned conservatively, reflecting wider market conditions, the Group added 21 mainline stores during the year, including Burberry's first flagship store in Asia at Singapore's Ion Orchard. The Group also added locations in existing markets, including Paris and New York to intensify Burberry's presence in these high potential metropolitan areas.
- Upgrading existing stores.** 28 stores and concessions were renovated over the period, in line with efforts to ensure greater consistency of brand expression and customer experience.
- Enhancing service.** Burberry is committed to achieving industry-leading standards of customer service in its stores. The roll-out of the Burberry Experience sales and service programme in the US and Europe was completed during the year, and is well advanced in Asia. In addition, to further improve service to top customers, the Group launched a pilot initiative aimed at better meeting the specific requirements of these clients.
- Digital integration and e-commerce development.** The Group is committed to creating a seamless link between the physical and digital presence of the Burberry brand, responding to the direction of retailing as an increasingly multichannel proposition. In e-commerce, Burberry achieved 60% growth in the year, and plans continued investment in this channel. The brand is also bringing this commitment to digital technology in-store. E-commerce enabled tablets were added to mainline stores during 2009/10.
- Global buy.** Execution of the global buy, a common product assortment across Burberry stores, contributed to enhanced sourcing efficiencies, more consistent in-store presentation and improved sell-through rates.

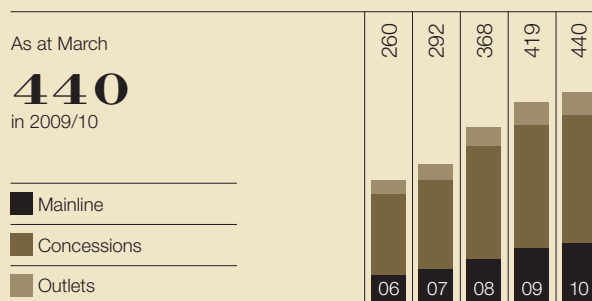
**KPI: Growth in retail revenue** includes comparable store sales growth (measuring growth in productivity of existing stores), plus sales from new space.



Growth rate is year-on-year underlying change i.e. at constant exchange rates. Comparable store sales growth is defined as the annual percentage increase in sales from stores that have been opened for more than 12 months, adjusted for closures and refurbishments.

In 2009/10, comparable store sales growth increased by 7% (H1: 2%; H2: 10%), driven by product innovation, digital marketing and improved customer service. The balance of revenue growth was driven by new space, which increased 9% on average during the year.

**KPI: Number of stores** measures the reach of Burberry directly-operated stores around the world.



The number of stores directly operated by Burberry increased by 21 in 2009/10, including a net 12 mainline stores and a net nine concessions around the world.





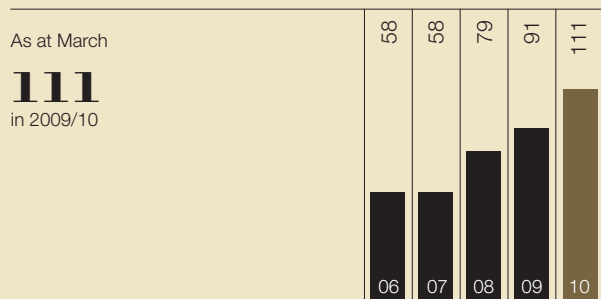
BURBERRY  
LONDON

## INVESTING IN UNDER-PENETRATED MARKETS

Focus on and invest in under-penetrated markets. For Burberry, these consist of both developed markets like the United States and emerging markets including China, India and the Middle East. All distribution channels (retail, wholesale and licensing) are used to optimise these opportunities.

- Americas.** The Group continues to see strong growth potential in the Americas across both wholesale and retail channels. As part of strengthening its wholesale operations, Burberry opened a new regional headquarters with state-of-the-art showrooms. In retail, management opened six stores, including the first standalone test stores for the Burberry Brit and London lines. The Group also intensified efforts in Latin America with a dedicated on the ground management team, and the April 2010 opening of Burberry's first directly operated store in the region in Brasilia.
- China.** At year end, Burberry operated 50 stores in the mainland China market through a franchise partner. A net 13 new stores were added in the year – including the first standalone children's store in this market.
- Other emerging markets.** A new joint venture in India was announced in November 2009, combining the strengths of the Burberry brand and organisation with the expertise of a local partner to address this young, exciting luxury market. In conjunction with local partners, the Group also opened the first Burberry stores in Bahrain and Lebanon in the year.

**KPI: Number of stores in Emerging Markets** measures the reach of the Burberry brand in these high potential countries.



Emerging Markets include: China, the Middle East, Eastern Europe, Russia, Brazil, India and other parts of South East Asia, South Africa and South America

Burberry added a net 20 stores in Emerging Markets, of which 13 stores were in China and six were in the Middle East. Of the total, 97 are operated under franchise, 12 by the Burberry Middle East joint venture, and two by the Burberry India joint venture.

In North America, which Burberry has also identified as an under-penetrated market, underlying retail and wholesale revenue increased by 2% in 2009/10, with an improved performance in the second half (up 10%).



BURBERRY  
BRIT





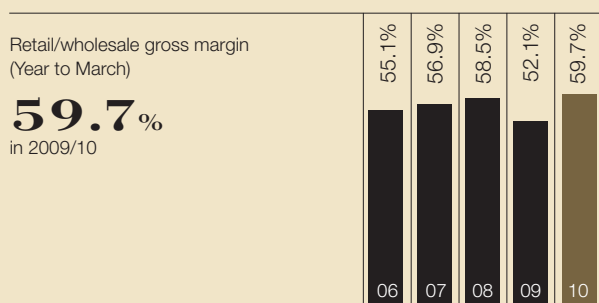
## PURSuing OPERATIONAL EXCELLENCE

Burberry continues to pursue its goal to be recognised as much for operational expertise as for product and marketing excellence.

Efforts to drive operational excellence have driven significant improvements across central functions, the supply chain and IT:

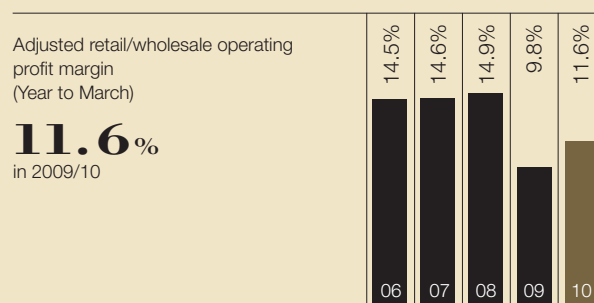
- Fully executed global cost efficiency programme.** Management successfully executed the £50m cost efficiency programme announced in 2008/09. Approximately half of the gains were driven by supply chain and corporate process efficiencies. Cost reductions, including rationalisation of internal manufacturing, showroom closures and intensive expense and headcount management, accounted for the remainder.
- Further progress in planning.** Building on the investment made in 2008/09, Burberry continued to develop a more sophisticated global planning and inventory management function. Through enhanced sales forecasting and monitoring, combined with more disciplined procurement, inventory levels were reduced 36% year over year.
- Flexing the supply chain.** In response to the quickening pace of customer demand in the year's second half, management accelerated product deliveries and added an unplanned capsule collection for April selling. These actions were enabled by investment in the supply chain during the previous two years.
- Finalising global infrastructure implementation.** The Group moved toward completing SAP implementation in the year. The new system was deployed in the US operations in April 2009 and in most of Asia in May 2010. The Europe distribution hub was also converted in April 2010. Presently, approximately 90% of Burberry's stores are converted.

**KPI: Retail and wholesale gross margin** measures, among other things, how efficiently Burberry sources its products.



Gross margin in retail and wholesale increased by 760 basis points in 2009/10. This was achieved by a combination of an increase in the proportion of full price sales and supply chain improvements.

**KPI: Adjusted retail and wholesale operating profit margin** measures how Burberry's initiatives and its investment to improve its business processes, including sourcing, IT and logistics are impacting its profit margin.



Adjusted operating profit margin is stated before exceptional items

Burberry's adjusted retail and wholesale operating profit margin increased from 9.8% to 11.6%, largely due to gross margin benefits and savings from the global cost efficiency programme.



BURBERRY  
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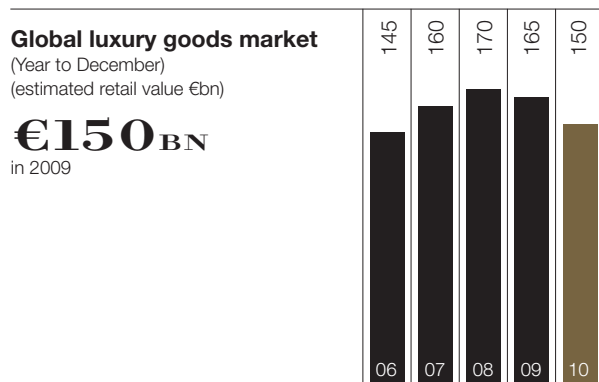


## OUR GLOBAL REACH

Burberry is a global luxury brand with a distinctive British heritage, core outerwear base and one of the most recognised icons in the world. Burberry designs, sources and markets apparel and accessories, selling through a diversified network of retail, digital commerce, wholesale and licensing channels worldwide.

The business is managed by channel, region and product, supported by corporate functions.

### SECTOR



Company and industry estimates

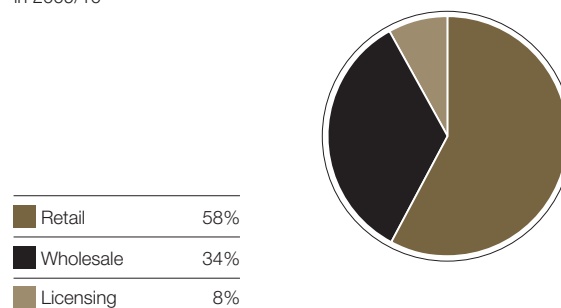
Burberry operates in the global luxury sector which, for Burberry's relevant categories, is estimated to be an approximately €150bn global market.

Since 2004, the global luxury goods market had grown by around 8% per annum prior to the economic downturn in late 2008. In 2009, it is estimated that the global luxury market declined by around 9%, as consumer confidence and spending fell. Industry analysts expect the sector to show some recovery in 2010, although not as high as the 8% seen prior to 2008.

Burberry competes with a variety of luxury goods companies. Some are large international conglomerates, owning many luxury brands; others are focused on a single brand locally; while others are small, more localised operations. Burberry's relevant peer group differs by product category – non-apparel, womenswear, menswear and childrenswear.

### CHANNELS

**Revenue by channel**  
in 2009/10



**Retail:** includes 131 mainline stores, 262 concessions within department stores and 47 outlets, as well as digital commerce in 27 countries

**Wholesale:** includes sales to prestige department stores and specialty retailers worldwide, as well as sales to its franchisees who operate 97 Burberry stores, mainly in Emerging Markets

**Licensing:** royalty income primarily received from Burberry's licensees in Japan, its global licensees for fragrance, eyewear and timepieces, and from small menswear and European childrenswear licensees

#### Balanced channel mix

Burberry sells its products to the end consumer through both the retail (including digital commerce) and wholesale channels. For 2009/10, retail accounted for 58% of revenue and wholesale 34%.

Burberry also has selective licensing agreements in Japan and globally, leveraging the local and technical expertise of its licence partners.







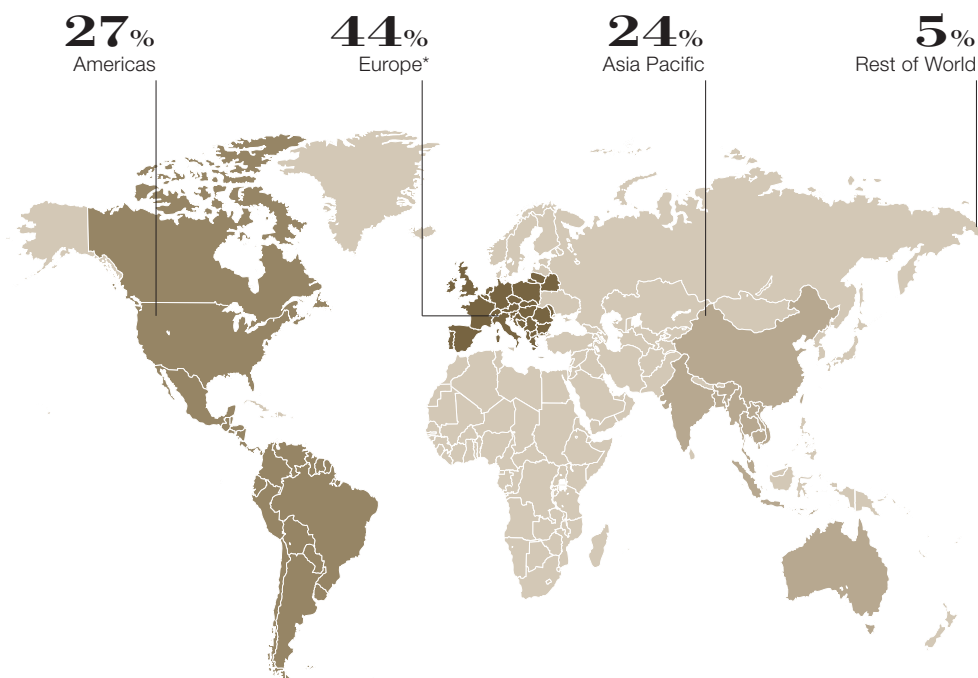
## OUR GLOBAL REACH CONTINUED

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### REGIONS

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**Retail/wholesale revenue by region**  
in 2009/10



\*including Spain

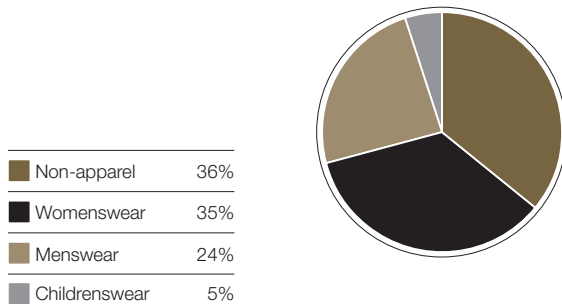
#### Broad geographic portfolio

In 2009/10, Europe including Spain accounted for 44% of sales, Americas 27% and Asia Pacific 24%. Emerging Markets, which spans across all regions and includes China, India, Russia, Eastern Europe and the Middle East, contributed 10% to retail and wholesale revenue.

Americas: includes US, Canada, Central and South America  
Asia Pacific: includes China

## PRODUCTS

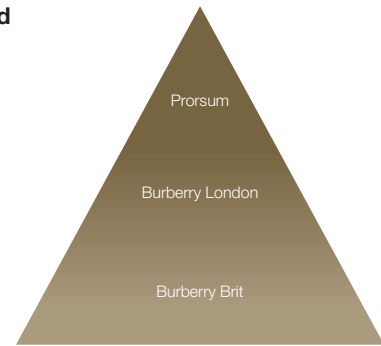
**Retail/wholesale revenue by product**  
in 2009/10



### Diversified offering

The Burberry brand has broad consumer appeal. The business is balanced between non-apparel (36% of 2009/10 revenue), womenswear (35%), menswear (24%) and the smaller but high potential childrenswear division (5%). Outerwear, which is the core of the apparel offer at over half of sales, is the category in which Burberry is top-of-mind among consumers. Burberry continues to grow outerwear by continued product innovation. Another key strategy is to grow non-apparel where revenue increased by 10% underlying in 2009/10. Burberry is planning further growth in all areas of the business over the next few years.

**Product pyramid**



### Product pyramid

Within the Burberry offering, there is a product hierarchy defining components – each with unique branding and a distinctive identity.

At the top is Prorsum, the most fashion forward collection centred around runway shows each year. Prorsum, the Latin word for 'moves forward', provides the design inspiration for other ranges.

In the middle of the pyramid is Burberry London – or what a Burberry customer wears on weekdays for work, i.e. tailored ready to wear.

At the base of the pyramid is Burberry Brit – what a Burberry customer wears on the weekend, i.e. casual wear.

Ranges at Burberry are balanced appropriately across the pyramid to drive sales and profitability. Outerwear goes across all three levels as Burberry continues to innovate and diversify this core category. A clearer delineation between Burberry London and Burberry Brit was introduced from Spring/Summer 2010 as the ranges were relabelled. Burberry London uses Beat check and tonal check branding strategies, whereas Burberry Brit uses innovative and more contemporary versions of the core iconic check.

## DIVERSIFIED BUSINESS MODEL

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### CORPORATE

Burberry's channel, product and regional teams are supported by core corporate functions which effectively and efficiently sustain the business, as well as develop the brand in a cohesive manner around the world.

At the front end, these include:

- Design – including product design, store design, visual merchandising and creative media. Everything the consumer sees is developed centrally under Chief Creative Officer, Christopher Bailey
- Marketing – including integrated advertising, PR and communications functions, which together focus on building and elevating brand awareness through traditional and digital media
- Digital commerce – a newly-formed team, driving digital commerce globally to accelerate the brand's digital leadership position in the luxury sector and help unlock the huge opportunities in this high-growth channel
- Merchandising and planning – this team assorts, procures, and analyses our global collections in alignment with brand initiatives and commercial opportunities

At the back end, these include:

- Supply chain – responsible for sourcing, quality assurance, logistics and customer operations worldwide
- Corporate resources – consists of service and productivity, client services, customer services, commercial services, human resources, facilities and showrooms, asset and profit protection
- IT – covering global infrastructure, systems and support
- Strategy – including licensing, new business development and corporate strategy
- Finance and corporate support – including all finance functions, investor relations, business integration, legal and corporate responsibility, corporate planning and pricing, audit and risk

### KEY RESOURCES

In order to drive growth by pursuing its five key strategies, Burberry must continue to invest in its key resources of:

#### People

Burberry employs more than 5,700 people worldwide. The team has been strengthened considerably over the past few years to drive delivery of the five strategic themes and support and sustain continued growth. Burberry is committed to attracting, retaining and developing world class talent. As the business grows and the demand for expertise and ability across the organisation increases, Burberry is ensuring that it develops a robust 'pipeline' of talent throughout the Group. 2009/10 saw an increased level of internal promotions and redeployments within the Group to create stronger cross-functional teams.

#### Brand

With over 150 years of history, rooted in its authentic British heritage and the integrity of its outerwear, Burberry continues to strive to elevate and extend the brand. The brand has broad consumer appeal across genders and generations; a unique demographic positioning within the luxury arena; and broad global reach. Burberry continues to invest in the brand by continually promoting design innovation, reinventing its icons and reinforcing the brand with professional merchandising and compelling marketing campaigns. It is actively embracing digital and social media to extend the reach and appeal of the brand, especially to the luxury customer of the future.

#### Infrastructure

An effective and efficient infrastructure is required to support Burberry's growth objectives. During the past several years, the Group has invested substantial capital to restructure IT systems, modernise the supply chain, including sourcing, logistics and distribution facilities, and close inefficient operations. Burberry aims to be recognised as much for its operational expertise as for its product and marketing excellence.

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More information at [www.burberryplc.com](http://www.burberryplc.com)

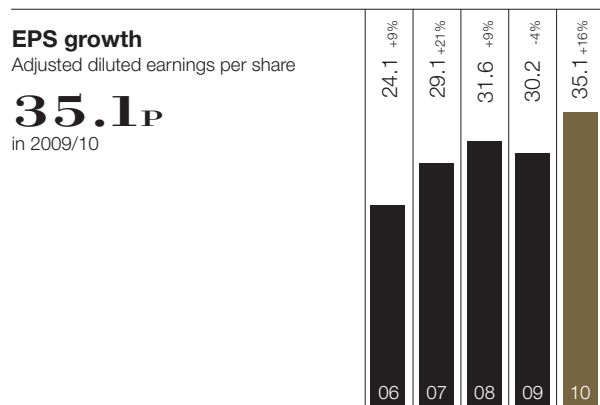


## KPIs

The following key performance indicators (KPIs) are reviewed by the Board and the executive team to assess Burberry's progress against its five strategic initiatives. Although the trends in each of the KPIs below will obviously be influenced by more than one of the strategic initiatives, the following information provides investors with a clear scorecard for Burberry's performance.

KPI (year to March)	2010	2009	2008	2007	2006
Total revenue growth (%) – see page 18	<b>+1%</b>	+7%	+18%	+15%	+3%
Growth in non-apparel revenue (%) – see page 20	<b>+10%</b>	+12%	+39%	+15%	0%
Growth in retail revenue (%) – see page 22	<b>+15%</b>	+14%	+20%	+24%	+11%
Number of stores – see page 22	<b>440</b>	419	368	292	260
Number of stores in Emerging Markets – see page 24	<b>111</b>	91	79	58	58
Retail and wholesale gross margin (%) – see page 26	<b>59.7%</b>	52.1%	58.5%	56.9%	55.2%
Adjusted retail and wholesale operating profit margin (%) – see page 26	<b>11.6%</b>	9.8%	14.9%	14.6%	14.5%
Adjusted diluted earnings per share growth (%) – see below	<b>+16%</b>	(4%)	+9%	+21%	+9%

KPI: Growth in adjusted diluted EPS is a key valuation metric for Burberry's shareholders.



Adjusted diluted EPS is stated before exceptional items

Adjusted diluted EPS rose 16% to 35.1p in 2009/10 reflecting 22% growth in adjusted operating profit, partially offset by a net interest charge of £5.1m and a higher tax rate.

### Total shareholder return

As explained on page 71 in the Directors' Remuneration Report, Burberry also monitors Total Shareholder Return (TSR). This measures the growth in value of a shareholding assuming dividends are reinvested to purchase additional units of stock.

### Corporate responsibility

Burberry also recognises its responsibility to key stakeholders in managing its business. The progress Burberry has made this year in respect of its supply chain, people management and employee communications, community involvement and environmental matters is reported on pages 52 to 57.







BURBERRY  
ESTABLISHED 1856

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

\* See Exceptional items on page 44 for full details

EPS is calculated on a diluted basis. Underlying change is calculated at constant exchange rates. 'Adjusted' refers to profitability measures (pre and post tax) calculated excluding:

- Restructuring costs of £48.8m in 2010 (2009: £54.9m) relating to the Spanish restructuring and the Group's cost efficiency programme
- Impairment charges of £129.6m in 2009 relating to Spanish goodwill (£116.2m) and stores (£13.4m)
- Credit of £1.7m in 2009 representing negative goodwill on the formation of the Burberry Middle East joint venture
- 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)
- Net charge of £7.9m in 2009 relating to the relocation of global headquarters



# REVENUE ANALYSIS

## Revenue by channel

£ million	Year to 31 March		% change	
	2010	2009	reported	underlying
Retail	<b>748.8</b>	629.7	19%	15%
Wholesale	<b>433.6</b>	489.2	(11%)	(15%)
Licensing	<b>97.5</b>	82.6	18%	(6%)
<b>Total</b>	<b>1,279.9</b>	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	<b>419.6</b>	366.3	15%	10%
Womenswear	<b>415.5</b>	412.8	1%	(3%)
Menswear	<b>288.5</b>	298.4	(3%)	(7%)
Childrenswear	<b>58.8</b>	41.4	42%	37%
<b>Total retail/wholesale</b>	<b>1,182.4</b>	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	<b>137.7</b>	110.1	25	29
Licensing	<b>82.2</b>	70.7	16	(12)
<b>Adjusted operating profit</b>	<b>219.9</b>	180.8	22	13
Adjusted operating margin %	<b>17.2%</b>	15.0%		
Exceptional items	<b>(48.8)</b>	(190.7)		
<b>Operating profit/(loss)</b>	<b>171.1</b>	(9.9)		

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

£ million	Year to 31 March		Year to
	2010	2009	31 March 2010
Revenue	97.5	82.6	77.8
Cost of sales	–	–	–
Gross margin	97.5	82.6	77.8
Gross margin %	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>
Operating margin %	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	<b>(48.8)</b>	(54.9)
Goodwill impairment charge	-	(116.2)
Store impairments	-	(13.4)
Negative goodwill	-	1.7
Relocation of headquarters	-	(7.9)
	<b>(48.8)</b>	(190.7)

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 profit before tax 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 £70m of capital expenditure, of £53m of dividends, £51m of tax and £27m of restructuring costs.

**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.

## **Spain**

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. The financial implications of this restructuring 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.

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.

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.

## BUSINESS AND FINANCIAL REVIEW CONTINUED

### 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)
<b>At 31 March 2010</b>	<b>131</b>	<b>262</b>	<b>47</b>	<b>440</b>	<b>97</b>

### Store portfolio by region

	Directly-operated stores				Franchise stores
	Mainline stores	Concessions	Outlets	Total	
At 31 March 2010					
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
<b>Total</b>	<b>131</b>	<b>262</b>	<b>47</b>	<b>440</b>	<b>97</b>

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

### 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%
<b>Total retail/wholesale</b>	<b>1,182.4</b>	<b>1,118.9</b>	<b>6%</b>	<b>2%</b>

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





# BURBERRY SPORT

THE NEW FRAGRANCES FOR  
WOMEN AND MEN

## RISKS

**The management of the business and the execution of the Group's growth strategies are subject to a number of risks. The risks set out below represent the principal risks and uncertainties which may adversely affect the management of the Group and the execution of its growth strategies**

The steps the Group takes to address these risks, where they are matters within its control, are also described. Such steps may mitigate but not eliminate these risks. Some of the risks relate to external factors which are outside the Group's control. The order of the risks is in no way an indication of their relative importance, and each of the risks should be considered independently. If more than one of the events contemplated by the risks set out below occurs, it is possible that the combined overall effect of such events may be compounded.

Risks are formally reviewed by the Group Risk Committee (the 'Committee') who meet at least three times a year. The membership of the Committee comprises the Chief Executive Officer, Executive Vice President – Chief Financial Officer, Executive Vice President of Corporate Resources, Chief Operations Officer, Senior Vice President Commercial Affairs and General Counsel and the Director of Audit and Risk Assurance. At the invitation of the Committee, the Director of Intellectual Property, Director of Corporate Responsibility, Head of Risk Management and representatives from other assurance teams regularly attend Committee meetings. The assessment of the Group's risks and the processes in place for management and mitigation of these risks are reviewed by the Audit Committee on a regular basis. Key business risks are also considered by the Audit Committee and are considered generally as part of the Group's strategic development and ongoing business review processes.

**The global economic downturn affected consumers' purchases of discretionary luxury items which has adversely affected Burberry's sales in certain markets**

In common with all Burberry's competitors, the global economic downturn affected the level of consumer spending on discretionary luxury items. During a recession, when disposable incomes are lower, a global downturn will adversely affect Burberry's sales in certain markets.

A significant proportion of the Group's sales are generated by customers (in particular Middle Eastern, Russian, Japanese, Chinese and other Asian customers) who purchase products while travelling either overseas or domestically. As a result, shifts in travel patterns or a decline in travel volumes could materially affect trading results.

Following a further review of Burberry's Spanish business, the Group announced the planned restructuring of its Spanish Operations consistent with its strategy of aligning Burberry in Spain with its global business model.

**Changes to the political regime or tax and fiscal regulations in the countries in which the Group operates could have an adverse impact on the Group's operations or revenues**

The Group operates in many countries including the emerging markets. These countries have a variety of legal and regulatory systems which may be changed retrospectively or prospectively and which may not be enforced in a predictable or consistent manner, particularly in times when public sector debt is high and tax revenues are falling. Furthermore, some of these countries have not had stable governments historically and have been subject to political instability.

When the Group enters a new market, governance processes are in place to monitor the implementation programme, which includes oversight by the Group's legal, company secretariat, tax and audit and risk assurance departments. The Group uses the services of professional consultants to advise on legal and regulatory issues and to monitor ongoing developments.

**If Burberry loses key management or is unable to attract and retain the talent required for its business, its operating results could suffer**

Burberry's performance depends largely on its senior managers and design teams. The resignation of key individuals or the inability to recruit individuals with the relevant talent and experience to enable future business growth could adversely impact Burberry's performance.

To mitigate these issues the Remuneration Committee regularly benchmarks the Group's incentive arrangements against Burberry's global competitors and considers the framework in place to recruit, incentivise and retain key individuals. In addition, there are regular ongoing recruitment, talent review and succession planning programmes overseen by the Executive Vice President of Corporate Resources and Chief Executive Officer to ensure that the Group strengthens and develops its senior management team by identifying, developing and nurturing high-potential talent. During the year, the Group introduced a Leadership Council to identify and develop high-potential individuals within the organisation.

**The cumulative change and significant growth within the business places a significant pressure on resources and its IT systems**

The combination of the continued development of the Group's IT infrastructure, the focus on maximising the benefits of digital media, combined with the ongoing development of the global supply chain and the implementation of a number of other significant projects combine to exert significant pressure on the business. Governance processes are in place for each major programme to monitor and manage the progress of these initiatives and these are supplemented by monthly operational meetings with senior management to review operational performance. The senior management team has been strengthened and organisational structures realigned to further support these key initiatives and external consultants are used to complement internal skills where required.

**There is a risk of over-reliance on key trading partners**

In a number of key product categories Burberry is reliant on a small number of suppliers. During the year, the Group continued to strengthen its supply chain management team to enable the further evolution and development of the manufacturing base and also to mitigate the risk associated with over-reliance on a number of key product suppliers. Where suitable alternatives exist, the Group has reduced volumes with such suppliers and continues to look for suitable additional alternatives where necessary.

The Group has a number of key customers whose business represents a substantial portion of sales. The Group dedicates resources to these customers and maintains close relationships with such customers to understand and respond to their needs.

The Group closely manages its relationships with key suppliers and customers which includes monitoring their financial and non-financial performance.

**A substantial proportion of the Group's revenue and profits is reliant upon business in Japan and key global licensees**

A significant source of profit is derived from the royalties received from licensees, specifically the Group's licensees in Japan and the fragrance licensee InterParfums S.A. Burberry relies upon licensees to, among other things, maintain operational and financial control over their businesses. Should these licensees fail to effectively manage their operations, the Group's royalty income would decline. Failure to manage these key relationships effectively could have a material impact on the sales, profitability and reputation of the Group.

The Group regularly implements royalty reviews and audits of licensees, but cannot guarantee that they will reveal any non-compliance with the terms of the relevant licence.

To minimise the risks in Japan, Burberry has its own offices and operations in Tokyo and closely monitors its relationships with licensees. During the year, the Group amended the terms of its apparel licence with Sanyo Shokai and Mitsui in Japan. The amendment, together with the non-apparel joint venture formed with Sanyo Shokai and Mitsui in November 2008, better positions the Group to optimise its presence in Japan and the high-growth Asian region.

**Burberry may be unable to control its wholesale and licence distribution channels satisfactorily**

The Group relies upon the ability to control its distribution networks and licensees to ensure that products are sold in environments consistent with the Group's luxury image. An action by any significant wholesale customer or licensee, such as presenting Burberry products in a manner inconsistent with our preferred positioning, would be damaging to our brand image. If, due to regulatory, legal or other constraints, the Group is in any way unable to control its wholesale distribution networks and licensees, the Burberry brand image, and therefore results and profitability, may be adversely affected.

**The Group relies upon its licensees, suppliers, franchisees, distributors and agents to comply with relevant legislation**

The Group expects its licensees, suppliers, franchisees, distributors and agents to comply with employment and other laws relating to their country of operation and to operate to good ethical standards. The Group, however, is unable to guarantee that this is the case, although it continually monitors and improves its processes to gain assurance that its licensees, suppliers, franchisees, distributors and agents comply with its terms and conditions and relevant local legislation and good practice.

**Burberry could suffer if its supply chain is unable to produce and deliver goods at a competitive price, on time and to its specification**

If Burberry's suppliers fail to ship product on time, or product quality does not achieve Burberry's standards, this could result in the Group missing delivery dates to its customers, potentially resulting in cancelled orders or price reductions. Further, such a failure could affect wholesale customers' confidence which could adversely affect subsequent seasons' sales.



## RISKS CONTINUED

Burberry continues to evolve its supply chain strategy, refining its selection of suppliers to maintain and enhance product quality whilst improving sourcing efficiencies. The Group continues to rationalise its distribution network to minimise unnecessary costs and to improve delivery timeliness and accuracy.

The Group's planning and pricing function has continued to improve inventory management processes and effective product flow, facilitated by improved reporting and visibility provided from the new IT infrastructure. Further opportunities exist to improve inventory management processes and these will help ensure that the Group continues to produce merchandise of the right quality, in accordance with its ethical policy and delivered in accordance with its requirements.

During the year, the Group announced the restructuring of its Spanish operations consistent with its strategy of aligning Burberry in Spain with its global business model.

### **The inability to anticipate and respond to changes in consumer demand and product category trends on a timely basis could adversely impact sales**

The Group's business depends, in part, on the ability to shape, stimulate and anticipate consumer demand by producing innovative, fashionable and functional products. Categories are cyclical, so it is critical the Group builds responsive product teams to exploit trending categories, launch new categories and balance core apparel and non-apparel categories.

The Group has evolved its product hierarchy and design calendar to enable continued brand momentum, product refreshment and replenishment to be more responsive to fashion and consumer trends and to respond more efficiently to changing circumstances.

Burberry continues to protect its classic core market by adding innovation to further stimulate sales to current customers, while attracting new customers to the brand. The Group balances and plans all categories and brand icons through a strict product hierarchy. To continue brand momentum, and to protect market share in apparel and non-apparel categories, the Group features outerwear and the Burberry Check icons as part of its marketing initiatives.

In response to high demand, the Group introduced the *April Showers* capsule range in April 2010 to fulfil consumer demand and drive brand momentum.

### **Burberry is dependent on the strength of its trade marks and other intellectual property rights**

Burberry's trade marks and other proprietary rights are fundamentally important to the success and competitive position of the business and are intrinsic to maintaining brand value. Unauthorised use of the 'Burberry' name, the Burberry Check and the Prorsum horse trade marks, in particular, as well as the distribution of counterfeit products damage the Burberry brand image and profits. If a third-party registers one of the Group's trade marks, or similar trade marks, in a country where the Group does not currently trade, this would create a barrier to commencing trade under those marks in that country. In addition, if a third-party publishes harmful material using our trade marks, Burberry's brand image could suffer. The Group has a dedicated team operating internationally to register, protect and enforce its trade marks and other intellectual property rights. Where infringements are identified, the Group resolves these through a mixture of criminal and civil legal action and negotiated settlement.

Nevertheless, it is not possible to guarantee that the actions taken to establish and protect the Group's trade marks and other proprietary rights will be adequate to prevent imitation of Burberry's products by others. Trade marks and intellectual property rights, while subject to international treaties, are largely driven by national law and the protection of intellectual property rights varies from one jurisdiction to another.

The Group cannot therefore necessarily be as effective in all jurisdictions in addressing counterfeit products. In many territories the Group is dependent upon the vigilance and responsiveness of law enforcement bodies whose priorities may differ from the Group's. They are also subject to budgetary constraints and prioritise their actions accordingly. Whilst the Group works closely with customs and other law enforcement bodies, ultimately the Group cannot direct their actions.

**In key emerging markets, including China and the Middle East, Burberry is largely dependent upon third-party operators with the associated lack of direct control and transparency and as the Group moves into increasingly higher risk locations the operating and reputational risk increases**

In a number of key emerging markets, Burberry operates through third-party franchisees. In particular, a third-party retail operation has been developed in China. The Group largely depends upon the expertise of these franchisees given its relative lack of experience in this region. During the year, the Group has strengthened its emerging markets team, and where appropriate has its own staff based within these operations who work closely with franchisees to further develop operational models to enable greater control and visibility.

The Group has established joint ventures in Japan, the Middle East (excluding Saudi Arabia) and India to collaborate with experienced operators in high-growth, under-penetrated markets and improve its ability to ensure the operations are managed in accordance with the Group's global standards.

**Burberry is exposed to foreign currency fluctuations**

Burberry derives a significant percentage of its profits from its Japanese licensing arrangements. As a consequence, the Group is exposed to a significant risk associated with the Yen to Sterling exchange rate. In addition, the Group is continuing to expand its operations in the United States and Europe as part of its strategy to accelerate retail expansion in key under-penetrated markets. As the Group's presence in the United States and Europe increases, it is exposed to an increased risk associated with the US Dollar to Sterling exchange rate and Euro to Sterling exchange rate.

The Group manages a significant proportion of the foreign currency exposures by the use of forward exchange contracts. Currency fluctuations affecting the Yen, Euro, US Dollar and other currencies will nevertheless affect results and profitability.

**Burberry's operating results are subject to seasonal fluctuations**

Burberry's business, particularly with respect to apparel, broadly operates on a seasonal basis (Spring/Summer and Autumn/Winter) and the Group has experienced, and expects to continue to experience, substantial seasonal fluctuations in sales and operating results. In particular, results vary based on the weather because of the large proportion of outerwear products Burberry offers and the effect of the weather on retail markets generally. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year are not necessarily meaningful. In addition, these comparisons cannot be relied on as indicators of the Group's future performance.

**Burberry faces increasingly intense competition**

Competition in the luxury goods sector has intensified in recent years and Burberry is faced with increasing competition in many of our product categories and markets. The Group competes with international luxury goods groups who control a number of luxury brands and may have greater financial resources and bargaining power with suppliers, wholesale accounts and landlords. If Burberry is unable to compete successfully, operating results and growth may be adversely impacted.

**A significant incident such as a natural catastrophe, global pandemic or terrorist attack affecting one or more of the Group's key locations could significantly impact the operation of our businesses**

In such circumstances, the uninterrupted operation of the business cannot be ensured, particularly in the short term. Business continuity plans are in place to mitigate but not eliminate the operational risks.

## OPERATING RESPONSIBLY

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Since its foundation in 1856, Burberry has sought to achieve the very highest quality standards. This focus is an integral part of the brand and informs ongoing efforts to ensure that Burberry is recognised as much for operational excellence as it is for its luxury products. Putting Corporate Responsibility at the heart of Burberry's business practices is a key part of this philosophy, and speaks to the heritage and longevity of the brand as well as its pioneering spirit.

Burberry strongly believes that to be a great brand it must also be a great company. This belief is reflected in its continued pursuit to improve Corporate Responsibility performance and to inspire employees around issues of ethics, social and environmental responsibility and community investment.

The following section describes Burberry's current approach to tackling these challenging issues, including some of our achievements in 2009/10.

### Highlights of the Year

- 30% increase in visits to product suppliers' factories over prior year to 634
- Launched Sustainability Leaders Initiative across the business
- Continued to reduce our CO<sub>2</sub> emissions from the Group's buildings by a further 9% per £1,000 of turnover
- Committed to purchasing 29% of all our UK electricity from Combined Heat and Power and renewable sources in 2010 calendar year

One of Burberry's five strategic themes is pursuing operational excellence. Operational excellence in CR has five key areas of focus:

- Healthy business partnerships: based on shared values and high ethical standards
- Excellent products and service: quality, craftsmanship, heritage and service standards
- Environmental excellence: operating efficiently with minimum waste and maximum control
- Excellence in people management: attracting and retaining talented employees
- Contributing to society: investing and engaging in the communities where Burberry operates

For more information on Burberry's Corporate Responsibility ('CR') policies including its Ethical Trading Policy, performance and case studies, please visit the Corporate Responsibility section of [www.burberryplc.com](http://www.burberryplc.com).

### Corporate Responsibility Governance

Michael Mahony, Senior Vice President Commercial Affairs & General Counsel is accountable for CR matters on behalf of Burberry and the Board. He chairs the CR Committee which formally reports to the Group Risk Committee. The CR Committee held three meetings during the year.

Two supplementary committees, the Global Sustainability and Supply Chain Risk Committees are responsible for these specific topics. Both committees generate formal reports for the CR Committee.

In 2009/10, the Group strengthened its CR team to a total of 13 members. The global team, which is based in London, New York, Hong Kong and Tokyo, leads Burberry's supply chain, labour, environmental excellence and community investment initiatives in partnership with its stakeholders.

### Ethical trading: supply chain

#### Monitoring the supply chain

Burberry believes that its products should only be made in factories that comply with local labour and environmental laws and by workers who work fair but not excessive hours; are provided with a safe and hygienic work environment; and who can exercise their right to freedom of association and collective bargaining.

All Burberry suppliers are governed by its Ethical Trading Policy that sets clear expectations regarding issues like living wage, child labour and regular employment. Seven Burberry team members are charged with ensuring the implementation of the policy throughout the supply chain as their sole responsibility.

This policy is based upon internationally accepted codes, International Labour Organisation conventions and is published in full in the Corporate Responsibility section of [www.burberryplc.com](http://www.burberryplc.com).



With periodic assistance from third-party auditors the team regularly visits factories to assess their performance related to Burberry's Ethical Trading Policy and develops factory improvement plans based on their findings. Follow-up visits are conducted to ensure that the plans have been implemented.

Complementing these audits are worker hotlines installed in select factories, which act as both a whistleblowing mechanism and counselling line.

The majority of Burberry's products are manufactured in Europe through third-party suppliers. All new Burberry suppliers, regardless of location, must be approved by the Corporate Responsibility team prior to production taking place.

Burberry understands that it cannot solve supply chain issues on its own and that a participative and collaborative approach is needed. Burberry will continue to maintain an open dialogue with its suppliers, peer companies, other brands, NGOs and trade unions to bring collective action to bear across the supply chain.

As part of Burberry's ongoing desire to reduce duplicative audits, we have developed partnerships with companies that produce in the same factories. Using the Fair Factory Clearinghouse (FFC) database tool, Burberry is now able to share and access credible information on factory social compliance which replaces the need for additional audits and allows for further investments in capacity building and training.

Burberry is a founding member of the BSR Luxury Brands working group. The group was established to explore common approaches to collectively address material Corporate Responsibility issues specific to the luxury sector like the use of exotic skins. The Group is currently developing an animal welfare policy for working group members.

#### **Supplier ownership**

Working closely with Burberry teams, suppliers are demonstrating their increasing commitment to compliance by actively participating in capacity building programmes such as management system development, productivity enhancement and worker rights training. These programmes improve worker-management relationships, improve production processes and empower workers and management to resolve problems jointly.

In 2009, the Company launched its Corporate Responsibility Handbook. The Handbook, distributed to all suppliers by the Burberry Chief Operations Officer, provides additional detail and guidance to assist suppliers with integrating our policies into their management systems.

#### **Product and supply chain standards – upstream**

Burberry strives to achieve the highest quality standards in all components and stages of its supply chain process.

Burberry recognises that its responsibility does not end at the first tier supplier and subcontractor level of the supply chain. The Company has been working to address issues deeper in the supply chain including raw materials like leather, fur and cotton.

#### **Leather**

Burberry joined the BLC Leather Working Group in order to have a clearer understanding of the environmental impact of tanneries, investigate the possibility of hide traceability and collaborate with other brands and tanneries to improve environmental standards within the leather industry. Burberry supports the working group's efforts to ensure the preservation of the Amazon Biome (rainforest).

#### **Fur**

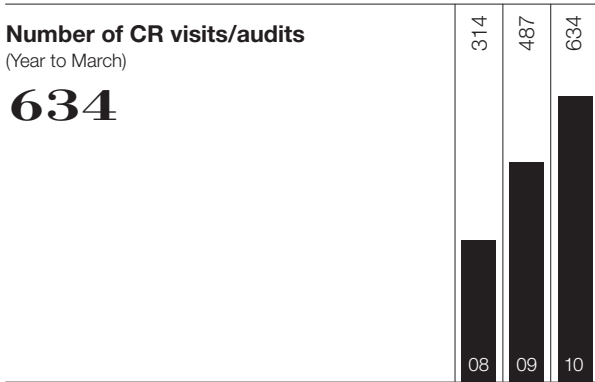
There has been, and will continue to be, occasions where consumer tastes demand the use of fur. Burberry believes that any materials derived from animals should be produced without inflicting cruelty or threatening the environment. Burberry will not use fur if there is any concern that it has been produced using the unacceptable treatment of the animals. For this reason, Burberry does not source such materials from China. Fur is carefully sourced, safeguarding the correct ethical standards and traceability. Fur is principally sourced from SAGA furs which is known for upholding high standards of ethical treatment of animals and shares the Group's concerns about animal welfare. The farms that supply fur are open to third-party inspections at any time and have been visited by the Burberry CR team.

#### **Uzbek cotton**

Following the deeply concerning reports relating to alleged forced child labour in the Uzbekistan cotton industry, Burberry has taken steps to exclude Uzbek cotton from its supply chain. In progress is a cotton traceability project related to Uzbek cotton and other raw materials.

2009/10 supply chain achievements

- Factory visits: 634 factory visits; a 30% increase on last year
- Stakeholder engagement: Actively participated in the BLC Leather Working Group and the Responsible Cotton Network
- Capacity building: Developed Corporate Responsibility Handbook for vendors
- Worker hotline: Expanded confidential worker hotline to Japan and Italy
- Raw Materials Traceability: Agreed and signed contract to launch a 2010 traceability project



**Environmental performance**

Burberry is committed to reducing its environmental footprint throughout its global operations. Environmental sustainability is a key responsibility and Burberry can play an important role in ensuring that its environmental impact is minimised in the countries where it sources materials and products through to the markets where products are sold.

Strong environmental performance is important to Burberry employees, customers and future generations and is good for business as it ultimately improves efficiency and leads to cost savings. Burberry’s most critical environmental sustainability impact areas include carbon emissions (linked to energy use, travel and distribution network), solid waste and packaging materials (linked to shipping, marketing and sales).

Burberry established a Global Sustainability Committee in 2009 which meets quarterly. On the committee every region or function of the business is represented by a nominated Sustainability Leader.

Burberry regularly communicates its revised Global Environmental Policy to all vendors and integrates environmental best practices directly into our Non-Stock Procurement procedures and contractual negotiations.

**2009/10 environmental performance results**

**Energy:**

- Reduced CO<sub>2</sub> emissions from the Group’s buildings by 9% per £1,000 of turnover
- Committed to purchasing 29% of the Group’s UK electricity from CHP and renewable sources in the 2010 calendar year to drive demand for renewables in the UK
- Installed ‘Solar Control Window Film’ in the new Burberry Americas headquarters at 444 Madison, New York, with a projected annual savings of close to 300,000 kWh
- Implemented an automated PC shut-down system on the Burberry network worldwide to save energy overnight

**Packaging:**

- Launched a new Established range of consumer packaging made from an FSC accredited sustainable source and 100% elemental chlorine free

**Logistics transport emissions:**

- Continued to pursue a programme to divert freight to sea from air driving reductions in carbon emissions

**Business travel**

- Reduced air travel for UK employees by 10% per £1,000 of turnover, through utilisation of virtual meetings via video conferencing facilities globally

**Waste**

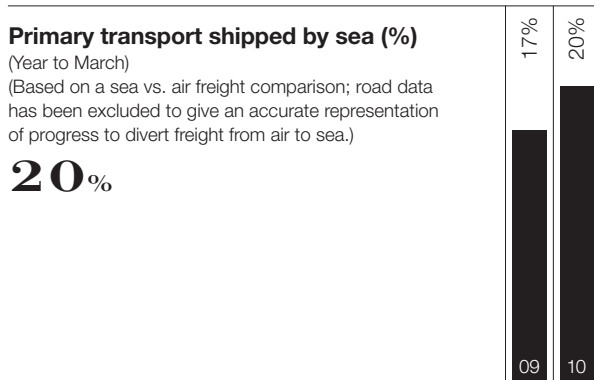
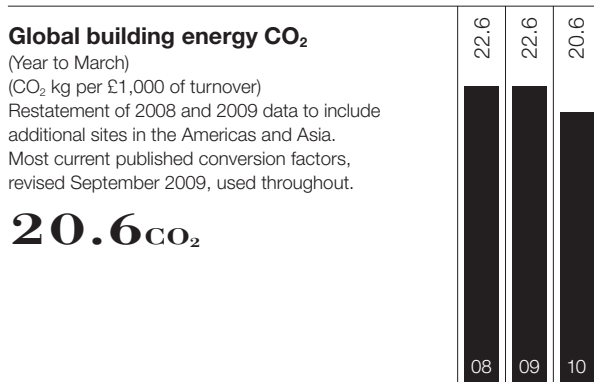
- Renewed focus on increasing recycling globally. In the UK, recycling has increased to 47% of the total waste produced
- Developed a closed loop textile recycling system in the UK. The Group’s global recycling partner converts sample and raw material waste into car door insulation

**Digitalisation:**

- Converted lookbooks from paper to digital – used by buying teams and wholesale customers to choose products. This is estimated to save 32 tonnes of paper and £70,000 annually
- Digitised visual merchandising props ordering process for regional teams

**Information technology:**

- Launched an online environmental data management system to cover 100% of Burberry’s global sites



**Air travel CO<sub>2</sub>**

(Year to March)  
 (CO<sub>2</sub> kg per £1,000 of turnover-based on UK employees)

**1.4**CO<sub>2</sub>



The data in these graphs comes from a combination of automated and manual internal processes. The majority is based on actual data, supplemented, when necessary, by approximations.

**Excellence in people**

**Organisational effectiveness**

The Burberry Human Resources team continue to drive people excellence with the focus being to recruit, retain and develop world class employees around the world, to deliver extraordinary results in the service of the Brand.

A commitment to diversity and respect for all is a key foundation underlying the Burberry culture and its success as a global luxury brand.

- Burberry’s global nature is reflected not only through its geographic footprint, but also through its workforce. In the global headquarters at Horseferry House, Burberry employs nationals of 39 different countries from the five continents.
- Women make up a large part of the workforce in all parts of the organisation, from its manufacturing sites through to its headquarters (70% women). Burberry was acknowledged for this diversity at the 2010 Opportunity Now Awards where the Company won the ‘Female FTSE 100 Award’ as well as the ‘FTSE Executive Women Award’.

The Burberry brand captures the energy of youth and is underpinned by its values – protect, explore and inspire. Burberry’s workforce encompasses the digital generation and experienced craftsmen and women. In the 2009 Long Service Awards, the Company recognised service up to 45 years.



**2009/10 results**

- Recruitment: Successful implementation and roll out of Burberry's global careers website has attracted over 20,000 applications for roles in the Company this year.
- Organisational development: Continued evolution and development of the organisation has enabled the Group to continue to ensure its infrastructure and capability is able to deliver both the growth agenda in line with the key strategic themes and the business efficiencies Burberry is committed to.

In February 2010, Burberry announced the proposed restructuring of its Spanish operations in order to align Spain to its global business model and introduce the Burberry global collection. Burberry agreed a redundancy plan with the Works Council and unions, with the resultant loss of just under 300 jobs. All employees leaving the Company are being offered outplacement support.

As part of the global cost efficiency programme, Burberry France undertook a limited collective dismissal process. This restructure aligned Burberry France with the European Shared Services organisation model and affected the IT and Finance functions. The Group continues to embed this new organisation structure into Burberry France.

- Leadership development: Design, development and delivery of a new leadership programme targeting 100 high-potential managers identified in all areas of the business and regions. This leadership programme is developing an internal pipeline of world-class talent to provide future leaders for the business. Leadership capabilities are developed through mentoring, personal development plans, one to one coaching, worldwide events and workshops, and international mobility.
- Meeting structures: At the outset of 2009/10, Burberry established a robust meeting structure to improve meeting effectiveness and enhance internal communications and alignment:
  - Executive Operations Committee: Oversight of overall performance of Burberry and major cross business issues
  - Monthly Management Reviews: Review of operational performance, outlook and budgets
  - Management Update Forum: Discussion of product, corporate and regional performance by senior leadership
  - Global Quarterly Update: Communication of key strategies as well as product, corporate and regional performance to the whole Company

**Health and safety**

As a core priority, Burberry continues to ensure a healthy and safe environment for all employees and customers. To assure the Board that this is the case, there is a formal health and safety audit process and programme that ensures all Burberry manufacturing sites and distribution centres are audited at least annually with major offices and retail locations audited at least once every three years. All audits were completed successfully with no problems reported.

During the year, there have been a number of visits by regional enforcement bodies all with successful outcomes and no required changes to systems or processes.

To further strengthen this area, a Corporate Health and Safety Manager was appointed whose role will be to further develop the Global management system and related training programmes, incident management and key performance indicators in the coming year. The most significant of which will be an integrated Health and Wellbeing Policy linking a number of key departments such as Human Resources, Talent Development, Facilities and the external Occupational Health Provider.

**The Burberry Experience**

Following the success of the Burberry Experience sales and service pilot training programme during 2008/09, an enhanced programme has been rolled out to mainline stores and concessions this year. Led by the Service and Productivity teams at Corporate and in the Regions, more than 1,800 retail store employees have been trained this year. The training programme has been designed for and delivered to all retail staff to ensure that the customer experience is in line with Burberry's brand standards and luxury positioning.

The evaluation of the effectiveness of the training is ongoing, and has shown positive results and improvements in levels of service being delivered to our customers globally. The training continues to be enhanced and extended to improve leadership skills and productivity. The Burberry Experience will continue to be rolled out to new markets where Burberry operates globally.

**Community investment**

Ongoing investment in the communities where the majority of employees live and work remains a key element of the Burberry Corporate Responsibility strategy.

**The Burberry Foundation**

A key extension of the tradition of philanthropy at the Company, the Burberry Foundation (UK registered charity no. 1123102) provides a strategic platform for Burberry's community engagement and builds charitable giving in its regions.

Established in 2008, the Foundation is a philanthropic organisation dedicated to helping young people realise their dreams and potential through the power of their creativity. The Foundation's goals are to help young people to:

- gain confidence in their daily lives and develop self-esteem
- build connections to their families, friends, partners and society at large
- develop the ability to reach for opportunities in school, work and life

The Burberry Foundation's grant making is focused on supporting innovative programmes and building sustainable partnerships that leverage the Company's assets and combine financial support with the knowledge, creativity and dedication of Burberry employees.

The Foundation receives donations from Burberry and other benefactors to award strategic grants and make targeted donations of in-kind gifts. In 2009/10, the Group's donations to the Burberry Foundation amounted to £800,000 in cash and more than £150,000 in-kind. These contributions enabled the Foundation to support charities in Boston, Chicago, Hong Kong, London, Los Angeles, New York, San Francisco and Seoul.

For a list of charities supported by the Burberry Foundation, or for further information, please see [www.burberryfoundation.org](http://www.burberryfoundation.org).

#### Employee engagement

Burberry employees are encouraged to further support the Foundation's grant recipients through the Company's employee engagement programme, which allows staff to take up to four hours per month of paid leave to volunteer with any one of the Foundation's charity partners around the world.

In 2009/10, employees volunteered more than 3,500 hours of time, a tenfold increase on 2008/09, lending their personal talents and business skills to help young people.

A significant part of Burberry's employee engagement efforts this past year was dedicated to job training programmes for young people in London and New York City. These programmes brought 60 students to corporate offices and retail stores for job training and hands-on work experience ranging from two to ten weeks.

#### In-kind donations

Burberry donates products to the Burberry Foundation for distribution to charities in its grants portfolio. Donations range from one-off gifts of fabric or materials for an art or design course, to a large-scale annual Christmas Coat Donation programme which saw approximately 1,500 coats distributed to charities globally.

#### Corporate donations

An ongoing part of doing business is to selectively support customer and supplier-related events and charitable causes. Each regional office has a discretionary charity budget which is managed and approved locally.

#### Disaster relief

In response to the catastrophic earthquake in Haiti on 12 January 2010, Burberry and its employees donated over £149,250 to British and International Red Cross agencies around the globe to assist with its relief and reconstruction efforts.

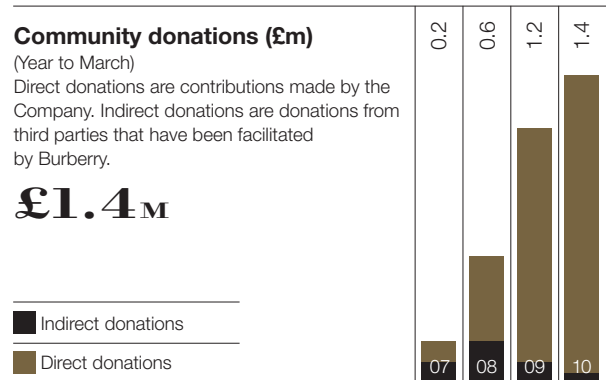
In 2009/10, corporate contributions totalled over £1.4 million.

#### Community donations (£m)

(Year to March)

Direct donations are contributions made by the Company. Indirect donations are donations from third parties that have been facilitated by Burberry.

**£1.4M**









**BOARD OF DIRECTORS**



Back row from left to right: Ian Carter, Stacey Cartwright, Stephanie George, Philip Bowman, John Smith  
Front row from left to right: David Tyler, Angela Ahrendts, John Peace



**John Peace (61)<sup>††</sup>****Chairman**

John Peace has been Chairman of the Board since June 2002 and is also Chairman of the Nomination Committee. He is Chairman of the Board of Standard Chartered plc and of Experian plc. Previously he was Group Chief Executive of GUS plc from 2000 until 2006. John was appointed a non-executive director of First American Corporation in March 2009.

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**Executive Directors**
**Angela Ahrendts (49)<sup>†</sup>****Chief Executive Officer**

Angela Ahrendts became Chief Executive Officer in July 2006, having served as an executive director since January 2006. Angela previously held various senior appointments, including the position of Executive Vice President, at Liz Claiborne Inc between 1998 and 2006. She was also Executive Vice President of Henri Bendel from 1996 to 1998 and President of Donna Karan International from 1989 to 1996.

**Stacey Cartwright (46)****Executive Vice President, Chief Financial Officer**

Stacey Cartwright joined as Chief Financial Officer on 1 March 2004 and was appointed Executive Vice President, Chief Financial Officer in June 2008. She had previously been Chief Financial Officer at Egg plc between 1999 and 2003, and from 1988 to 1999 she held various finance-related positions at Granada Group plc.

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**Non-Executive Directors**
**Philip Bowman (57)<sup>†††</sup>****Senior Independent Director**

Philip Bowman was appointed as a non-executive director in June 2002 and is the Senior Independent Director and Chairman of the Audit Committee. He was appointed Chief Executive of Smiths Group plc in December 2007 and is a non-executive director of Berry Bros & Rudd Limited and Better Capital Limited. He previously held the positions of Chief Executive at Scottish Power plc from early 2006 until mid 2007 and Chief Executive at Allied Domecq plc between 1999 and 2005. His earlier career included five years as a director of Bass plc. He was previously Chairman of Liberty plc and Coral Eurobet plc and a non-executive director of Scottish & Newcastle plc and British Sky Broadcasting Group plc.

**Ian Carter (48)<sup>††</sup>****Non-Executive Director**

Ian Carter was appointed as a non-executive director in April 2007. He is currently President of Hilton Hotels Corporation Global Operations. He was previously CEO of Hilton International Company and Executive Vice President of Hilton Hotels Corporation, and was a director of Hilton Group plc until the acquisition of Hilton International by Hilton Hotels Corporation in February 2006. He previously served as an Officer and President of Black & Decker Corporation between 2001 and 2004.

**Stephanie George (53)<sup>††</sup>****Non-Executive Director**

Stephanie George was appointed as a non-executive director in March 2006. She is currently Executive Vice President of Time Inc., with responsibility for the publishing divisions and overall management of People, In Style, Entertainment Weekly, Real Simple, Essence and the Time Inc. Media Group. Before this, Stephanie spent 12 years at Fairchild Publications, first as publisher of W magazine and then as President, Women's Wear Daily Media Worldwide. Stephanie also sits on the Board of Lincoln Center.

**John Smith (52)<sup>††</sup>****Non-Executive Director**

John Smith was appointed as a non-executive director on 1 December 2009. He is currently Chief Executive of BBC Worldwide. John joined the BBC in 1989, where he held the positions of Chief Operating Officer, Director of Finance, Property & Business Affairs and Finance Director. John joined BBC Worldwide in July 2004 and was appointed Chief Executive in March 2005. He previously served as a non-executive director of Severn Trent Water plc between 2003 and 2008.

**David Tyler (57)<sup>††</sup>****Non-Executive Director**

David Tyler became a non-executive director in June 2002, having been a director of the Company since 1997. He was appointed Chairman of the Remuneration Committee in March 2007. David was Group Finance Director of GUS plc from 1997 until its demerger in October 2006. He is currently Chairman of J Sainsbury plc and Logica plc and a non-executive director of Experian plc. Earlier in his career, David worked at Unilever plc, County NatWest Limited and Christie's International plc. He has an MA in Economics from Cambridge, is a fellow of the Chartered Institute of Management Accountants and a Member of the Association of Corporate Treasurers.

**Key to membership of committees**

\* Audit Committee

† Nomination Committee

‡ Remuneration Committee



## DIRECTORS' REPORT

The directors present their Annual Report together with the audited financial statements for the year to 31 March 2010.

### Business review

Burberry Group plc is required to set out in this report a fair review of the business of the Group during the year to 31 March 2010 and of the position of the Group at the end of the financial year and a description of the principal risks and uncertainties facing the Group (known as a 'business review'). The purpose of the business review is to enable shareholders to assess how the directors have performed their duty under section 172 of the Companies Act 2006 (duty to promote the success of the company). The Strategy and Group Overview sections on pages 15 to 35 and the Business and Financial Review on pages 38 to 46 report on the activities and results for the year and give an indication of the Company's future developments. The Corporate Responsibility Report is set out on pages 52 to 57. A description of the principal risks and uncertainties facing the Group is included on pages 48 to 51. The sections of the Annual Report referred to above, fulfil the requirements of the Business Review and are incorporated by reference and shall be deemed to form part of this report.

### Principal activities

Burberry Group plc is a holding company. The Group designs, sources, and markets luxury men's, women's and children's clothing and non-apparel accessories globally through a diversified network of retail, wholesale, franchise and digital commerce channels worldwide. Burberry also licences third parties to manufacture and distribute products using the 'Burberry' trademarks.

### Revenue and profit

Revenue during the period amounted to £1,279.9m (2009: £1,201.5m). The attributable profit for the year was £81.4m (2009: loss of £6.0m).

### Dividends

The directors recommend that a final dividend of 10.5p per ordinary share (2009: 8.65p) in respect of the year to 31 March 2010 be paid on 5 August 2010 to those persons on the Register of Members as at 9 July 2010.

An interim dividend of 3.5p per ordinary share was paid to shareholders on 4 February 2010. This will make a total dividend of 14.0p per ordinary share in respect of the financial year to 31 March 2010. The aggregate dividends paid and recommended in respect of the year to 31 March 2010 total £60.8m.

### Directors

The names and biographical details of the directors holding office at the date of this report are set out on page 61 and are incorporated by reference into this report.

At the 2010 Annual General Meeting, John Peace and Ian Carter will retire by rotation in accordance with Article 80 of the Articles of Association and, being eligible, will offer themselves for re-election.

In accordance with the Company's Articles of Association, as John Smith was appointed by the directors since the last Annual General Meeting, he will retire and a resolution proposing his election will be put forward at the forthcoming Annual General Meeting.

The separate circular to shareholders incorporating the Notice of this year's Annual General Meeting sets out why the Board believes these directors should be elected and re-elected. Details of the directors' service agreements and letters of appointment are given in the Directors' Remuneration Report on pages 70 to 79.

### Directors' share interests

Interests of the directors holding office at 31 March 2010 in the shares of the Company are shown within the Directors' Remuneration Report on page 79. There were no changes to the beneficial interests of the directors between the period 31 March 2010 and 25 May 2010.

### Directors' insurance and indemnities

The Company maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors. In accordance with section 236 of the Companies Act 2006, qualifying third-party indemnity provisions are in place for the directors and Company Secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law.

### Share capital

Details of the authorised and issued share capital, together with details of movements in the issued share capital of Burberry Group plc during the year are shown in note 21 which is incorporated by reference and deemed to be part of this report.

The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The ordinary shares are listed on the Official List and traded on the London Stock Exchange. As at 31 March 2010, the Company had 435,024,782 ordinary shares in issue, of which 77,215 were held as treasury shares.

In order to retain maximum flexibility, the Company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2009, to repurchase up to just under 10% of its issued share capital. Further details are provided in the separate circular to shareholders incorporating the Notice of this year's Annual General Meeting.

At the Annual General Meeting in 2009, shareholders approved resolutions to allot shares up to an aggregate nominal value of £72,000 and to give directors authority to allot shares for cash other than pro rata to existing shareholders. Furthermore, shareholders granted the directors authority to allot shares up to an aggregate nominal value of £144,000 for use in a rights issue only. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

There are no specific restrictions on the size of holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights.

The directors have no current plans to issue shares other than in connection with employee share schemes.

Details of employee share schemes are set out in note 26. The Burberry Group plc ESOP Trust has waived all dividends payable by the Company in respect of the ordinary shares held by it. In addition, the Burberry Group plc SIP Trust has waived all dividends payable by the Company in respect of the unappropriated ordinary shares held by it.

The total dividends waived in the year to 31 March 2010 were in aggregate £0.2m (2009: £0.3m).

With regard to the appointment and replacement of directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

**Substantial shareholdings**

As at 25 May 2010, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the following major interests in its issued ordinary share capital:

	Number of ordinary shares	% of total voting rights
Blackrock Inc	39,186,967	9.03%
Massachusetts Financial Services Company	25,720,195	5.94%
Ameriprise Financial, Inc	21,771,730	5.01%
Schroders plc	21,666,352	4.99%
JPMorgan Chase & Co	21,578,580	4.99%
Capital Research and Management Company	20,645,893	4.77%
FMR Corp	18,315,823	4.16%
Legal and General Group plc	17,296,785	3.99%

**Interests in own shares**

Details of the Company's interests in its own shares are set out in note 21 to the financial statements.

**Charitable donations**

During the year to 31 March 2010, the Group donated £1.4m (2009: £1.1m) for the benefit of charitable causes. These donations principally comprised cash. Further information regarding the charitable donations made during the year are contained in the Corporate Responsibility Report on pages 52 to 57.

**Political donations**

The Company made no political donations during the year in line with its policy. In keeping with the Company's approach in prior years, shareholder approval is being sought at the forthcoming Annual General Meeting, as a precautionary measure, for the Company and its subsidiaries to make donations and/or incur expenditure which may be construed as 'political' by the wide definition of that term included in the relevant legislation. Further details are provided in the separate circular to shareholders incorporating the Notice of this year's Annual General Meeting.

**Employment policies**

**Equal opportunities**

The Group is committed to ensuring the consistent profitable growth of its business and a policy of equal opportunity in employment is integral to this commitment. The aims of the Group's policy are to ensure that the most capable job applicants are recruited and the most competent employees in the Group progress. All employees will receive fair and equal treatment irrespective of sex, race, ethnic origin, nationality, marital status, age, religion, disability and sexual orientation. In the situation where an employee becomes disabled, the Group will endeavour to assist the employee by adapting the job if appropriate or by offering a transfer to another position.

**Health and safety**

The Group has a health and safety policy approved by the Board and a Global Health and Safety Committee which is chaired by the Executive Vice President – Chief Financial Officer. Each region has a local Committee which reports into the Global Committee. There have been a number of internal and external audits carried out to provide assurance. There has been no enforcement action following a routine visit by inspectors.

Further information regarding the Group's employment policies are provided in the Corporate Responsibility Report on pages 52 to 57.

**Employee involvement**

**Employee communication**

The Group believes that employee communication is important in building strong relationships with, and in motivating and retaining, employees. The Group makes use of various methods and channels, all of which are implemented globally, including, face-to-face briefings, open discussion forums with senior management, email and a corporate intranet to ensure that matters of interest and importance are conveyed to employees quickly and effectively. In addition, quarterly updates which highlight the Group's performance and its ongoing strategic initiatives are webcast globally. Furthermore, development of content such as videos and digital webpages to communicate key initiatives, events and other brand messages has further enhanced communication internally.

**Employee share ownership**

The Group recognises the importance of good relationships with employees of all levels and runs incentive schemes and share ownership schemes for the benefit of employees. Further details of these schemes are set out in the Directors' Remuneration Report on pages 70 to 79.

The Group again intends to invite Employees in the UK, Germany, Hong Kong, Italy, Korea, Singapore, Spain and Taiwan to take part in the Sharesave Scheme. The Group also intends to re-introduce the grant of free share awards or cash based awards to all employees during the financial year 2010/11.

Further details on the Group's approach to employee involvement and communications are provided in the Corporate Responsibility Report on pages 52 to 57.

### **Financial instruments**

The Group's financial risk management objectives and policies are set out within note 25 to the financial statements on pages 112 to 114. Note 25 also details the Group's exposure to foreign exchange, price, interest, credit and liquidity risks. These notes are incorporated by reference and are deemed to form part of this report.

### **Creditor payment policy**

For all trade creditors, it is policy to:

- agree and confirm the terms of payment at the commencement of business with that supplier
- pay in accordance with contractual and other legal obligations
- continually review the payment procedures and liaise with suppliers as a means of eliminating difficulties and maintaining a good working relationship

The Company had no trade creditors at 31 March 2010 (2009: £nil).

### **Significant contracts – change of control**

Pursuant to the Companies Act 2006, the directors disclose that in the event of a change of control in the Company, the Group's £200m Revolving Credit Facility (dated 16 March 2009) and the Group's Bi-lateral Multicurrency Revolving Credit Facilities totalling £60m (dated 13 June 2008) could become repayable.

In circumstances of change of control of the Company, Angela Ahrendts may terminate her employment. Her entitlement in respect of remuneration is set out on page 73 of the Directors' Remuneration Report where Burberry terminates her service agreement in circumstances where the Remuneration Committee determines that Angela Ahrendts' performance does not meet the financial expectations of the Board or shareholders.

In circumstances where the Company's shares cease to be listed, Stacey Cartwright may terminate her employment on three months' notice and would be entitled to her base salary for a period of nine months following termination.

Details of the service agreements of the executive directors are set out on page 72 of the Directors' Remuneration Report.

The provisions of the Company's employee share plans may cause options and awards granted under such plans to vest upon a change of control.

### **Essential contracts**

The Group has a number of contractual arrangements with suppliers (both of goods and services), wholesale customers, licensees who manufacture and distribute products using the Burberry trademarks, and franchisees. In addition, the Group occupies leasehold premises for the purpose of conducting its business. Whilst these arrangements are important to the business of the Group, individually none of them are essential to the business of the Group.

### **Auditors**

In accordance with section 418(2) of the Companies Act 2006, each of the Company's directors in office as at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The Group's auditors are PricewaterhouseCoopers LLP.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting.

Note 5 in the financial statements states the auditors' fees both for audit and non-audit work.

### **Going concern**

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business and Financial Review on pages 38 to 46, along with details of the Group's cash flows, liquidity position and borrowing facilities. Financial risk management objectives, details of financial instruments and hedging activities, and exposures to credit risk and liquidity risk are described in note 25, pages 112 to 114.

The directors have reviewed the Group's forecasts and projections. These include the assumptions around the Group's products and markets, expenditure commitments, expected cash flows and borrowing facilities. Taking into account reasonably possible changes in trading performance, and after making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly they consider it appropriate to adopt the going concern basis in preparing the annual report and accounts.

### **Annual General Meeting**

The Annual General Meeting of the Company will be held at the offices of Slaughter and May, One Bunhill Row, London, EC1Y 8YY commencing at 9.30am on Thursday, 15 July 2010. The Notice of this year's Annual General Meeting is included in the separate circular to shareholders. The Notice is available to view under the 'Shareholder Information' section of the Company's website [www.burberryplc.com](http://www.burberryplc.com).

By order of the Board

### **Michael Mahony**

General Counsel and Secretary  
25 May 2010

Registered Office:  
Horseferry House  
Horseferry Road  
London SW1P 2AW

Registered Number:  
03458224



**Corporate Governance Statement**

The Board remains committed to high standards of corporate governance which it considers to be central to the effective management of the business and to maintaining the confidence of investors. The Group complies with the laws and endeavours to observe the customs and culture in the countries in which it operates and does business. The Group expects all directors and employees to drive to achieve the highest standards and to act with respect and integrity. The Board monitors and keeps under review the Company's corporate governance framework.

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the financial year ended 31 March 2010 and as at the date of this Annual Report it complied in full with the relevant provisions set out in section 1 of the UK Combined Code on Corporate Governance ('the Code'). This report, together with the Directors' Remuneration Report on pages 70 to 79, provide details of how the Company has applied the principles and complies with the provisions of the Code.

**The Board**

The Board is collectively responsible for promoting the success of the Company. The Board provides leadership for the Group and concentrates its efforts on strategy, performance, governance and internal control. As at the date of this report, the Board has eight members: the Chairman, the Chief Executive Officer, the Executive Vice President-Chief Financial Officer and five independent non-executive directors. The names and biographical details of each of the directors and details of their membership of the Board's committees are set out on page 61.

The Board has a formal schedule of matters reserved to it for decision and approval which include, but are not limited to:

- the Group's business strategy
- annual budget and operating plans
- major capital expenditure, acquisitions or divestments
- the systems of corporate governance, internal control and risk management
- the approval of the interim and annual financial statements
- any interim dividend and the recommendation of the final dividend

The Board held six scheduled meetings during the year and also held one ad hoc meeting. The Group's strategy was regularly reviewed. All directors participate in discussions relating to the Group's strategy, financial and trading performance and risk management. The Board considers that it met sufficiently often to enable the directors to discharge their duties effectively.

The table below gives details of directors' attendance at Board and Committee meetings during the financial year ended 31 March 2010.

	Board		Audit Committee	Remuneration Committee	Nomination Committee
	Scheduled	Ad hoc			
John Peace	6/6	1/1	–	4/4	2/2
Angela Ahrendts	6/6	1/1	–	–	2/2
Philip Bowman	5/6	0/1	3/3	4/4	1/2
Ian Carter	6/6	1/1	3/3	4/4	2/2
Stacey Cartwright	6/6	1/1	–	–	–
Stephanie George	6/6	1/1	3/3	4/4	2/2
David Tyler	6/6	1/1	3/3	4/4	2/2
John Smith <sup>(1)</sup>	2/2	–	–	1/1	1/1

<sup>(1)</sup> John Smith was appointed a non-executive director on 1 December 2009 and was appointed to each of the Audit, Nomination and Remuneration Committees on 2 February 2010. He has attended all Board and Committee meetings held since his appointment.

At the request of any non-executive director, the Chairman will arrange meetings consisting of only the non-executive directors to allow the opportunity for any concerns to be expressed. During the year, the Chairman maintained regular contact and met with the Senior Independent Director and other non-executive directors.

The Board is chaired by John Peace. The Chairman is responsible for leading the Board and for its effectiveness. Angela Ahrendts is the Chief Executive Officer and is responsible for the execution of strategy and the day-to-day management of the Group, supported by the Executive Operations Committee. The division of the roles and responsibilities of the Chairman and Chief Executive Officer are formally set out in writing and agreed by the Board.

### **Board balance and independence**

John Peace, Philip Bowman, Ian Carter, Stephanie George, John Smith and David Tyler are, in the opinion of the Board, independent of management and free from any business relationship which could materially interfere with the exercise of their independent judgement. During the year under review, the majority of the Board (excluding the Chairman) comprised independent non-executive directors.

The Senior Independent Director, Philip Bowman, supports the Chairman in his role and leads the non-executive directors in the oversight of the Chairman and Chief Executive Officer. The Senior Independent Director has a specific responsibility to be available to shareholders if they have concerns which the normal channels have failed to resolve or where such contact is inappropriate.

### **Board appointments**

Board nominations are recommended to the Board by the Nomination Committee under its terms of reference. All directors are subject to election by shareholders at the Annual General Meeting following their appointment and thereafter to re-election at least once every three years in line with the Company's Articles of Association and provision A.7.1. of the Code. The biographical details of those directors seeking election and re-election at the forthcoming Annual General Meeting can be found on page 61 of this Annual Report.

### **Information and professional development**

On appointment, directors receive a full, formal and tailored induction, including meetings with members of the management team and briefings on particular issues. In addition, directors are furnished with an induction pack of information, which includes key Group policies, guidance notes and information on corporate governance matters.

As an ongoing process, directors are briefed and provided with information concerning major developments affecting their roles and responsibilities. In particular, the directors' knowledge of the Group's worldwide operations is regularly updated by arranging presentations from senior management throughout the Group.

The Chairman works closely with the Company Secretary to ensure that the Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to effectively discharge its duties. Where there are occasions when directors are unable to attend a meeting they have the opportunity to review meeting papers and submit comments to the relevant Chairman. Directors are also supplied with a monthly management report, which provides information on operational and financial performance and the Group's business plans.

All directors are able to consult with the Company Secretary. The appointment and removal of the Company Secretary is a matter reserved for the Board as a whole. Directors may obtain, in the furtherance of their duties, independent professional advice, if necessary, at the Group's expense. In addition, all directors have direct access to the advice and services of the Company Secretary and all senior management.

### **Board performance evaluation**

The Board undertakes a formal and rigorous review of its performance and that of its committees each financial year. In 2009/10, the evaluation was led by the Chairman and involved the completion of a detailed questionnaire. The review considered the outcomes of previous evaluations, the current composition and responsibilities of the Board and each of its committees, together with the frequency and structure of meetings. In addition, the review considered the contribution and effectiveness of the executive and non-executive directors. Feedback from the review was considered and it was concluded that the Board and its committees operate efficiently and effectively.

As a result of the review in 2008/09, it was agreed that the Board would dedicate more time to meeting with senior management. In October 2009, the Board Strategy meeting was attended by senior management from around the world who presented at the meeting.

The evaluation of the Chairman, which was led by the Senior Independent Director, was undertaken at a formal meeting of the non-executive directors. The review concluded that the Chairman continues to provide effective leadership and that he committed sufficient time to the performance of his duties. The major commitments of the Chairman are detailed in his biography on page 61.

The Board has agreed that the evaluation of its performance will be undertaken using an external facilitator in 2010/11.

### **Conflicts of interest**

The Board has authority to approve directors' conflicts and potential conflicts of interest and has adopted a policy and procedures to manage and, where appropriate, to approve such conflicts.

A review of situational conflicts which have been authorised is undertaken by the Board annually. Following the review for 2009/10, the Board concluded that there is currently no compromise to the independence of any director arising from an external appointment or any outside commercial interest.

### **Committees**

The Board is supported by a number of committees including the following principal committees: Audit Committee, Remuneration Committee and Nomination Committee. All the non-executive directors are members of each of the principal committees of the Board.

The terms of reference of each of the principal committees are available on request and can be viewed on the Company's website [www.burberrypkc.com](http://www.burberrypkc.com).

The committees, if they consider it necessary, can engage with third-party consultants and independent professional advisors and can call upon other resources of the Group to assist them in developing their respective roles. In addition to the relevant committee members and the Company Secretary, external advisors and, on occasion, other directors attend committee meetings but only at the invitation of the chairmen of the committees.

#### **Audit Committee**

The Audit Committee comprises five independent non-executive directors:

Philip Bowman (Chairman)  
Ian Carter  
Stephanie George  
John Smith (appointed 2 February 2010)  
David Tyler

The main roles and responsibilities of the Audit Committee are set out in written terms of reference.

The Audit Committee is responsible for:

- reviewing financial statements and formal announcements relating to the Group's performance
- reviewing the Group's internal financial controls and risk management systems
- monitoring and reviewing the effectiveness of the Group's internal audit function
- assessing the independence, objectivity and effectiveness of the external auditors
- developing and implementing policies on the engagement of the external auditors for the supply of non-audit services
- making recommendations for the appointment, re-appointment and removal of the external auditors and approving their remuneration and terms of engagement
- reviewing arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting and other matters

The Board is satisfied, in accordance with the provisions of the Code, that at least one member of the Audit Committee has recent and relevant financial experience, given the nature of the senior management positions held by Philip Bowman, David Tyler and John Smith (see biographical details on page 61).

The Audit Committee met three times during the year. The attendance record of Committee members is recorded in the table on page 65. At the invitation of the Chairman of the Audit Committee, the Chairman of the Board, the Chief Executive Officer, the Executive Vice President-Chief Financial Officer, the Director of Audit and Risk Assurance, the Senior Vice President Group Finance, the Director of Tax and the external auditors regularly attend meetings. The Audit Committee is responsible for reviewing and monitoring the effectiveness of the Group's internal control procedures and risk management systems. During the year, the Committee reviewed the Group's internal audit plan and approved the internal audit plan for the financial year to 31 March 2011. In addition, the Committee reviewed the adequacy of the 'whistle-blowing' arrangements in place to enable employees to raise, in confidence, any concerns they may have. The Committee is satisfied that such arrangements remain appropriate.

During the financial year, the Audit Committee reviewed the effectiveness of the external audit process and the qualification, expertise, resources and independence of the external auditors. The Committee also reviewed the proposed audit fee and terms of engagement for the financial year to 31 March 2010 and has recommended to the Board that it propose to shareholders that PricewaterhouseCoopers LLP be re-appointed as the Group's external auditors.

The Committee recognises that the independence of the auditors is an essential part of the audit framework and the assurance that it provides. The Committee monitors the types of non-audit work that are undertaken by the external auditors to ensure that their objectivity and independence is not compromised. Any proposed non-audit assignments require prior approval and the Committee receives a report at each meeting providing details of non-audit assignments carried out by the external auditors in addition to their normal work.

Details of the fees paid to the external auditors during the financial year can be found in note 5 in the financial statements.

#### **Remuneration Committee**

The report of the Remuneration Committee is set out on pages 70 to 79.

#### **Nomination Committee**

The Nomination Committee comprises:

John Peace (Chairman)  
Angela Ahrendts  
Philip Bowman  
Ian Carter  
Stephanie George  
John Smith (appointed 2 February 2010)  
David Tyler



The Nomination Committee is responsible for reviewing the balance and composition of the Board and its committees and for identifying and recommending appointments or renewal of appointments to the Board. These regular reviews ensure that the Group and the Board are able to draw from a complementary balance of skills and experience and that there is in place an appropriate plan for orderly succession to the Board. The procedure for appointments is set out in its terms of reference.

During the year under review, the Nomination Committee considered and reviewed the structure of the Board and its committees, the Group's succession planning arrangements and Board Performance Evaluation. These arrangements will be kept under review by the Committee.

The Nomination Committee met twice during the year under review. The table on page 65 gives details of directors' attendance at these meetings.

An external consultancy was used in connection with the appointment of John Smith as a non-executive director.

The terms and conditions of appointment of non-executive directors are available for inspection at Horseferry House, Horseferry Road, London SW1P 2AW and will be made available for 15 minutes before the Annual General Meeting and during the meeting itself.

### **Corporate Responsibility**

Details of the Group's approach to Corporate Responsibility are given on pages 52 to 57.

### **Accountability and audit**

The Board acknowledges that it should present a balanced and understandable assessment of the Group's position and prospects. In this context, reference should be made to the Statement of Directors' Responsibilities on page 80, which includes a statement in compliance with the Code regarding the Group's status as a going concern, and to the Report of the Auditors on page 81 which includes a statement by the auditors about their reporting responsibilities. The Board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators as well as to information required to be presented by law.

### **Internal control**

The Board acknowledges that it is responsible for the Group's system of internal control and the Audit Committee reviews its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Audit Committee has reviewed the effectiveness of the key procedures, which have been established to provide internal control. As part of the process that the Board has in place to review the effectiveness of the internal control system, there are procedures designed to capture and evaluate failings and weaknesses, and in the case of those categorised by the Board as 'significant', procedures exist to ensure that necessary action is taken to remedy the failings.

In accordance with the revised guidance for directors on internal control ('the Revised Turnbull Guidance'), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. These include those relating to social, environmental and ethical matters.

This process was in place throughout the year under review and up to the date of approval of the Annual Report and Accounts. The process is regularly reviewed by the Audit Committee which reports its findings for consideration by the Board, and is in accordance with the Revised Turnbull Guidance. The key procedures operating within the Group are as follows:

#### **Risk assessment**

The Group's business objectives are incorporated into the annual budgeting and planning cycle. Progress towards the achievement of such objectives is monitored by a variety of financial measures and non-financial performance indicators.

The Group Risk Committee of executive management meets formally at least three times a year to re-evaluate risk and to consider the work of the Internal Audit and Risk Assurance and other assurance teams. During the year, the Committee met on three occasions. The Director of Audit and Risk Assurance attends these meetings.

The Board acknowledges that it is responsible for considering operational, financial, compliance and other risks to the business and has delegated responsibility for reviewing the risk management procedures to the Audit Committee.

#### **Control environment and control activities**

The Group consists of a number of businesses, each with its own management structure which forms part of the overall management structure of the Group. The senior executives of these units report to the executive directors.

The Group has established procedures for the delegation of authorities for matters that are considered significant, either because of their value or the impact on the Group, to ensure that approval is considered at an appropriate level.

The Group's trading units operate within a framework of policies and procedures which are either already laid down or are being established in organisation or authority manuals. Policies and procedures cover key issues such as authorisation levels, compliance with legislation and physical security.

The Group has implemented various strategies to deal with the risk factors that have been identified. Such strategies include a framework of internal control and the use of third-party services to assist in monitoring specific issues. In addition, other approaches are taken, such as insurance.

#### **Information and communication**

The Group has a comprehensive system of budgetary control, focused on monthly performance reporting which is at an appropriately detailed level. A summary of results supported by commentary and performance measures is provided to the Board each month. The performance measures are subject to review to ensure that they provide relevant and reliable indications of business performance.

A summary of the key business risks and relevant control measures is submitted by the executive directors at each Audit Committee meeting. The Audit Committee meets with both external and internal auditors.

#### **Monitoring**

A range of procedures is used to monitor the effective application of internal control within the Group. These include management review, management confirmations of compliance with standards and procedures as well as internal audit and other specialist reviews. The Internal Audit department is responsible for reporting to the Audit Committee on the effectiveness of internal control systems.

#### **Relations with shareholders**

The Board recognises the importance of maintaining good communications with its shareholders and does this through the Annual Report, preliminary and interim announcements, interim management statements, the Annual General Meeting and through the additional processes described below.

The Chief Executive Officer and Executive Vice President – Chief Financial Officer make presentations to institutional shareholders and analysts immediately following the release of the preliminary and interim results; these presentations are made available on the Company's website [www.burberrypc.com](http://www.burberrypc.com).

The Company communicates with its institutional investors frequently and regularly through a combination of formal meetings, participation at investor conferences and informal briefings with management. The Board is kept abreast of the views of major shareholders by briefings from the Director of Investor Relations. During the year, the Board obtained an independent insight into the views of major shareholders through research undertaken by Makinson Cowell, an external capital markets advisory firm. The outcomes of that research were presented and reviewed by the Board. In addition, analysts' notes and brokers' briefings are also used to achieve a wide understanding of investors' views.

The non-executive directors, including the Senior Independent Director, are available to meet with major shareholders to discuss issues of importance to them, should a meeting be requested.

#### **Annual General Meeting**

In accordance with the provisions of the Code, the Notice of the 2009 Annual General Meeting was sent to shareholders at least 20 working days before the Meeting. A poll vote was taken on each of the resolutions put before shareholders. All directors attended the 2009 Annual General Meeting and the Chairman of the Board and the chairmen of each of the committees were available to answer shareholders' questions.

Voting at the 2010 Annual General Meeting will be by way of poll. The results of the voting at the Annual General Meeting will be announced and details of the votes will be available to view on the Company's website [www.burberrypc.com](http://www.burberrypc.com) as soon as possible after the meeting.

It is the intention that all directors, including the chairmen of the Audit, Remuneration and Nomination Committees, will attend the forthcoming Annual General Meeting and will be available to answer shareholders' questions.

## DIRECTORS' REMUNERATION REPORT

### Dear Shareholder

During the year the Remuneration Committee has focused upon ensuring that in difficult economic conditions, executive and senior management remuneration remains aligned with the achievement of sustained performance for shareholders. No salary increases were awarded in 2009/10 and no annual bonuses were paid in 2009/10. Reflecting the difficulty in setting annual performance targets in this environment, the Remuneration Committee introduced a relative earnings measure in the annual bonus plan for 2009/10 to ensure that maximum bonus levels would only be achieved if both absolute earnings targets and relative earnings targets compared to the results of competitors were met in full. In addition, an exceptional Restricted Share Plan award was made in 2009 to maintain executive focus on short-term actions that are expected to have longer-term benefits to the business.

During the year the Remuneration Committee kept under close review the performance of Burberry against the financial and total shareholder return targets in the annual bonus plan, the Restricted Share Plan and Exceptional Performance Share Plan. The Remuneration Committee intend to keep this under review in 2010/11 given the need to ensure the retention and motivation of a valued, high-performing executive team, and to maintain a fair reward to both shareholders and employees.

The Remuneration Committee has recently agreed to the re-introduction of the grant of free share awards to all employees, whether based in the UK or overseas. We believe that this will encourage share ownership as well as giving all employees a stake in the success of Burberry.

### David Tyler

Chairman of the Remuneration Committee

### Directors' Remuneration Report

This report has been prepared on behalf of the Board by the Remuneration Committee. It has been prepared in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations') issued under the Companies Act 2006 (the 'Act') and meets the relevant requirements of the Financial Services Authority's Listing Rules.

### The Remuneration Committee

The following directors served as members of the Remuneration Committee (the 'Committee') throughout the financial year ending 31 March 2010:

David Tyler (Chairman)  
Philip Bowman  
Ian Carter  
Stephanie George  
John Peace

John Smith was appointed a member of the Committee on 2 February 2010.

The Committee is responsible for setting the remuneration of the executive directors and the Chairman of the Board and monitors the level and structure of senior executive pay. The remuneration of the non-executive directors is a matter for the Board as a whole. No director is involved in any discussions as to his/her own remuneration. During the year under review, the Committee met four times. Details of attendance at those meetings is set out in the Corporate Governance Report on pages 65 to 69.

At the invitation of the Committee, except where their own remuneration was being discussed, Angela Ahrendts (Chief Executive Officer), Reg Sindall (Executive Vice President – Corporate Resources) and Michael Mahony (Senior Vice President – Commercial Affairs and General Counsel) attended Committee meetings during the period under review and provided advice that materially assisted the Committee.

The Committee has appointed Kepler Associates ('Kepler') to assist with its considerations. Kepler provide advice on the ongoing operation of employee and executive share plans together with advice on executive remuneration; they do not provide any other services to the Company. In addition, advice has been provided during the year by Towers Watson.

The terms of reference of the Committee are available on the Group's website [www.burberryplc.com](http://www.burberryplc.com).



**Remuneration policy**

The Committee believes the Group's remuneration should be competitive and strongly linked to performance, taking into account the global markets in which it operates. The Group's remuneration policy is based on the following principles:

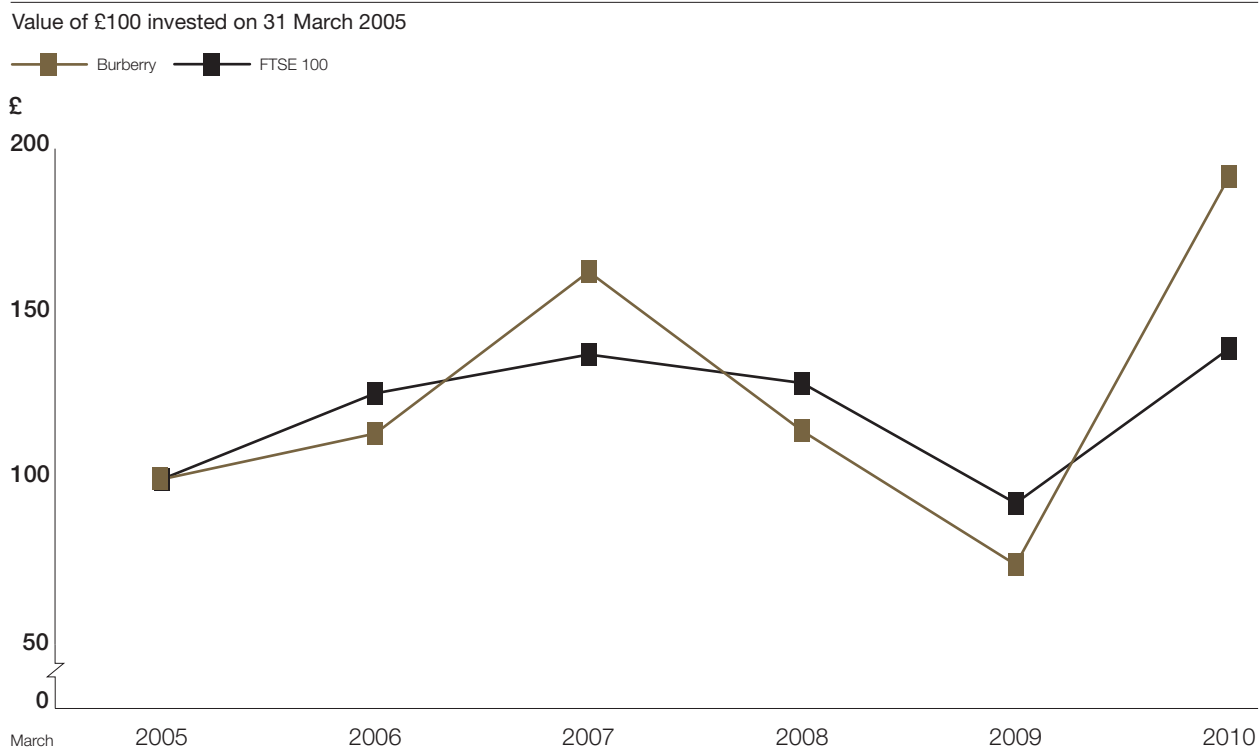
- Remuneration should be closely aligned with shareholders' interests through thoughtful selection of performance measures, emphasis on variable pay and delivery of remuneration in shares, some of which are expected to be retained in accordance with the Group's shareholding policy
- The overall remuneration framework should provide a balance between short and long-term business objectives. Variable pay for executive directors includes (1) an annual cash bonus based on profit before tax ('PBT'), and (2) long-term share-based incentives linked primarily to increases in shareholder value and growth in profit. Furthermore, the Burberry Co-Investment Plan (the 'Co-Investment Plan') encourages executive directors and other senior executives to invest their annual cash bonus into shares over a further three-year period
- Total remuneration should be sufficient to attract, motivate and retain exceptional talent within the global luxury brands sector. Total remuneration for executive directors and other senior executives is therefore benchmarked against Burberry's main global competitors and comparable UK companies. The Committee recognises that for each executive the relative importance of each of these benchmarks may be different. Benefits are based on competitive market practice for each executive, depending on individual circumstances

The Committee reviews the Group's remuneration policy on a regular basis, taking into account the performance and growth of the business and the global luxury goods sector. The Committee also considers the Group's policy against regulatory developments, shareholder expectations and market practice.

During the year the Committee considered the key elements of remuneration policy for all employees worldwide, including the invitation to participate in the Sharesave Scheme and the reintroduction and grant of free shares awards.

**Performance graph**

The following graph shows the Total Shareholder Return ('TSR') for Burberry Group plc compared to the companies in the FTSE 100 Index assuming £100 was invested on 31 March 2005. Burberry became a member of the FTSE 100 Index on 10 September 2009 and prior to that had a market capitalisation close to that of companies at the lower end of the FTSE 100 Index.



### Elements of remuneration

Remuneration is structured such that for executive directors and other senior executives, performance-related elements represent the majority of total potential remuneration. The Group implements its remuneration policy through the provision of the following elements:

#### Base salary

The Group aims to provide salaries which are competitive with those of comparable roles at global companies of a similar size and global reach within the luxury goods sector and to a lesser extent comparable UK companies. These companies are representative of Burberry's competitors for executive talent. When making salary determinations, the Committee takes into account not only competitive information but also each executive's individual performance and overall contribution to the business during the year.

#### Annual bonus

Each year the Committee sets bonus targets by reference to internal and external expectations. Bonuses are currently based on profitability and performance against Group strategic and individual objectives and overall contribution to the business. The Committee believes that linking incentives to profitability helps to reinforce the Group's strategy and long-term growth objectives. Targets are rigorously calibrated by Kepler using benchmarks that include broker earnings estimates for Burberry and its competitors, targets for profitability consistent with median/upper quartile shareholder returns, latest projections for the then current year, budget, strategic plan, long-term financial goals, etc. Actual bonus awards are subject to the discretion of the Committee.

#### Share schemes and long-term incentive arrangements

The Group has a number of share schemes and long-term incentive arrangements in place:

- The Burberry Co-Investment Plan (the 'Co-Investment Plan')
- The Burberry Exceptional Performance Share Plan (the 'EPP')
- The Burberry Senior Executive Restricted Share Plan 2004 (the 'RSP')
- The Burberry Executive Share Option Scheme 2002 (the 'Executive Share Option Scheme')
- The Burberry Approved Savings-Related Share Option Scheme (the 'Sharesave Scheme')

Further information regarding these schemes can be found on pages 75 to 78 and also in note 26.

#### Benefits and allowances

Benefits for executive directors include private medical insurance, life assurance and long-term disability insurance. Executive directors also receive car and clothing allowances.

#### Service agreements

##### Angela Ahrendts

Angela Ahrendts relocated from the US to the UK and commenced her employment with Burberry as an executive director on 9 January 2006 under a service agreement dated 10 October 2005. She was appointed Chief Executive Officer on 1 July 2006.

If Burberry terminates Angela Ahrendts' service agreement in circumstances where there is not poor performance she would be entitled to 12 months' salary and 75% of her annual maximum bonus opportunity. She would also receive her pension contribution for a further 12 months together with overseas allowances and, if applicable, relocation expenses.

If Burberry terminates the service agreement in circumstances where there is not poor performance as described below, any unvested Matching Share awards under the Co-Investment Plan will vest on a time apportioned basis.

If Burberry terminates the agreement without cause but in circumstances where the Committee determines that Angela Ahrendts' performance or that of the Group does not meet the financial expectations of the Board or shareholders, her entitlements in respect of salary and bonus will be reduced so that she will receive 12 months' salary and 37.5% of her maximum bonus opportunity. Angela Ahrendts may terminate the service agreement on six months' notice.

##### Stacey Cartwright

Stacey Cartwright is employed by Burberry as Executive Vice President, Chief Financial Officer under a service agreement dated 17 November 2003. Her term of appointment commenced on 1 March 2004.

Burberry may terminate Stacey Cartwright's appointment by giving 12 months' notice. In such circumstances she will be entitled to payment of salary and other benefits for a period of 12 months. Stacey Cartwright may terminate the service agreement on six months' notice.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Audited information

#### Directors' remuneration

##### Executive directors' remuneration

The remuneration of the executive directors of Burberry Group plc in the period 1 April 2008 to 31 March 2010 is detailed below.

##### Aggregate emoluments for director

	Salary £'000	Allowances paid in cash £'000	Bonus £'000	Benefits £'000	Aggregate emoluments £'000
<b>Angela Ahrendts</b>					
Year to 31 March 2010	910	387	1,820 <sup>(2)</sup>	45	3,162
Year to 31 March 2009	910	401	522 <sup>(3)</sup>	54	1,887
<b>Stacey Cartwright</b>					
Year to 31 March 2010	520	155 <sup>(1)</sup>	780 <sup>(4)</sup>	10	1,465
Year to 31 March 2009	520	155	–	7	682
<b>Total</b>					
Year to 31 March 2010	1,430	542	2,600	55	4,627
Year to 31 March 2009	1,430	556	522	61	2,569

<sup>(1)</sup> Allowances for Stacey Cartwright include a portion of her annual pension contribution which she elects to receive as a cash supplement, further details of which are contained in the section below entitled 'Executive directors' pension entitlements'.

<sup>(2)</sup> Angela Ahrendts is eligible to receive an annual bonus not exceeding 200% of annual salary.

<sup>(3)</sup> Angela Ahrendts did not receive an annual bonus in respect of the financial year to 31 March 2009. She received a personal achievement bonus of US\$750,000 in accordance with the terms of her service agreement entered into upon her recruitment in 2005; the personal achievement bonus was converted using the US\$/GB£ exchange rate at the time of payment.

<sup>(4)</sup> Stacey Cartwright is eligible to receive an annual bonus not exceeding 150% of annual salary.

##### Executive directors' pension entitlements

###### Angela Ahrendts

The Group makes an annual contribution equal to 30% of Angela Ahrendts' base salary to the Burberry Defined Contribution Pension Plan. For the year to 31 March 2010, the value of the Group's contribution was £273,000 (2009: £273,000).

###### Stacey Cartwright

Stacey Cartwright is entitled to an annual pension contribution equal to 30% of base salary. She has elected that a portion be paid as a cash supplement. For the year to 31 March 2010, the cash supplement was £123,420 (2009: £123,420). The contribution paid into her personal pension plan was £32,580 in the year to 31 March 2010 (2009: £32,580).



## DIRECTORS' REMUNERATION REPORT CONTINUED

### Chairman and non-executive directors' remuneration

The Chairman's remuneration is reviewed by the Committee. The fees for the non-executive directors are reviewed by the Board. The structure of remuneration for the Chairman and non-executive directors is set by reference to market practice within the limits set by the Articles of Association and were last reviewed in 2007. The Chairman and non-executive directors are not eligible for performance-related bonuses or share awards and no pension contributions are made on their behalf.

The table below sets out the fee structure for the Chairman and non-executive directors as at 31 March 2010.

	Fee level £'000
Chairman <sup>(1)</sup>	290
Senior independent director <sup>(2)</sup>	70
Board member	55
Audit Committee chairmanship fees	20
Remuneration Committee chairmanship fees	15
Attendance allowance <sup>(3)</sup>	2

<sup>(1)</sup> The Chairman is not eligible for Committee Chairmanship fees or attendance allowances.

<sup>(2)</sup> The Senior independent director is eligible for Committee Chairmanship fees and attendance allowances.

<sup>(3)</sup> Non-executive directors receive an attendance allowance for each meeting attended outside their country of residence.

The non-executive directors serve under Letters of Appointment as detailed in the table below. Non-executive directors are appointed for an initial three-year term, after which they may continue to serve subject to the Board's discretion and re-election by shareholders in accordance with the Company's Articles of Association, subject to six months' notice by either party. Fees paid to the Chairman and non-executive directors during the year are set out in the table below.

	Letter of appointment dated	Year to 31 March 2010 £'000			Year to 31 March 2009 £'000	
		Allowances	Fees	Total	Total	
John Peace	20 June 2002	–	290	290	290	
Philip Bowman	11 June 2002	–	90	90	90	
Ian Carter	16 April 2007	4	55	59	55	
Stephanie George	23 January 2006	12	55	67	65	
John Smith	27 November 2009	–	18	18	–	
David Tyler	20 June 2002	–	70	70	70	
<b>Total</b>		<b>16</b>	<b>578</b>	<b>594</b>	<b>570</b>	

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Share schemes and long-term incentive arrangements

#### The Burberry Co-Investment Plan (the 'Co-Investment Plan')

The Group encourages executive directors and other senior executives to hold shares in Burberry Group plc. To facilitate this, executive directors and other senior executives may, at the invitation of the Committee, defer receipt of all or part of their annual bonus and invest it in Burberry shares, with up to a 2:1 match based on Group performance during the year. The Matching Share awards do not vest for three years and are forfeited if the executive leaves due to resignation within that period. To further link pay and performance, and to align remuneration with shareholders' interests, the vesting of Matching Share awards granted after 31 March 2009 will be subject to the achievement of secondary performance conditions linked to growth in profit before tax.

No awards were made under the Co-Investment Plan during the financial year to 31 March 2010. The interests of the executive directors in share awards granted under this scheme as at 31 March 2010 were as follows.

	Date of grant	Number of Invested Shares			As at 31 March 2010	Number of Matching Shares <sup>(2)</sup>				Vesting date
		As at 31 March 2009	Purchased during the year	Released during the year		As at 31 March 2009	Awarded during the year	Exercised during the year	As at 31 March 2010	
Angela Ahrendts	20/06/2007	82,061	–	–	<b>82,061</b>	280,123	–	280,123 <sup>(3,5,6)</sup>	–	02/03/2010
	03/06/2008	135,434	–	–	<b>135,434</b>	416,086	–	–	<b>416,086</b>	03/06/2011
<b>Total</b>		<b>217,495</b>	–	–	<b>217,495</b>	<b>696,209</b>	–	<b>280,123</b>	<b>416,086</b>	
Stacey Cartwright	21/07/2005	38,295	–	38,295 <sup>(1)</sup>	–	104,580	–	104,580 <sup>(4,7)</sup>	–	21/07/2008
	20/06/2007	37,637	–	–	<b>37,637</b>	128,479	–	128,479 <sup>(3,5,8)</sup>	–	02/03/2010
	03/06/2008	60,228	–	–	<b>60,228</b>	185,036	–	–	<b>185,036</b>	03/06/2011
<b>Total</b>		<b>136,160</b>	–	<b>38,295</b>	<b>97,865</b>	<b>418,095</b>	–	<b>233,059</b>	<b>185,036</b>	

<sup>(1)</sup> Upon vesting of the Matching Share awards, the Invested Shares are no longer subject to restriction.

<sup>(2)</sup> The Matching Share awards are awarded on a gross basis and are taxed at the point of exercise.

<sup>(3)</sup> The market value of Burberry shares on the date of exercise (2 March 2010) was 637p.

<sup>(4)</sup> The market value of Burberry shares on the date of exercise (27 November 2009) was 572.5p.

<sup>(5)</sup> The exercise of Matching Share awards granted on 20 June 2007 took place on 2 March 2010. Upon exercise, sufficient shares were sold to meet the tax liability arising, the Invested Shares and the remaining Matching Shares may not be sold or transferred before the third anniversary of the date of the grant.

<sup>(6)</sup> A cash payment of £141,462, being the amount equivalent to the value of the dividends which would have been received as beneficial owner of the Matching Shares during the deferred period, was paid upon exercise.

<sup>(7)</sup> A cash payment of £49,152, being the amount equivalent to the value of the dividends which would have been received as beneficial owner of the Matching Shares during the deferred period, was paid upon exercise.

<sup>(8)</sup> A cash payment of £64,882, being the amount equivalent to the value of the dividends which would have been received as beneficial owner of the Matching Shares during the deferred period, was paid upon exercise.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### The Burberry Exceptional Performance Share Plan (the 'EPP')

The EPP is a one-off long-term incentive plan introduced in 2007, the purpose of which was to incentivise senior management to achieve stretching goals and to help provide exceptional reward for exceptional performance. Awards granted under the EPP are based 50% on relative Total Shareholder Return ('TSR') performance and 50% on growth in profits over the three and four-year performance periods to 2010 and 2011. Awards do not vest unless Burberry's TSR exceeds the median of the comparator group or growth in profit before tax ('PBT') exceeds 50% over the four-year performance period to 2010 or 75% over the five-year performance period to 2011. For the performance period to 2010, maximum vesting requires Burberry's TSR to outperform the median of its peers by at least 8% p.a. and would require PBT growth of at least 75%. For the performance period to 2011, maximum vesting requires Burberry's TSR to outperform the median of its peers by at least 7% p.a. and would require PBT growth of at least 100%. Of the shares which vest based on the achievement of the performance conditions, 50% vest on the third anniversary of the date of grant based on performance to 2010 and the remaining 50% vest on the fourth anniversary of the date of grant based on performance to 2011.

The TSR group for this award comprised Bulgari, Coach, Compagnie Financière Richemont, Estée Lauder, Fossil, Geox, Hermès International, Hugo Boss, Inditex, Liz Claiborne, Luxottica Group, LVMH Moët Hennessy Louis Vuitton, Nike, Nordstrom, Polo Ralph Lauren, PPR, Saks, Swatch, Tiffany & Co, and Tod's.

The interests of the executive directors in ordinary shares subject to awards under this plan as at 31 March 2010 were as follows:

	Date of grant	Number of ordinary shares			As at 31 March 2010	Vesting period <sup>(1)</sup>		
		As at 31 March 2009	Lapsed during the year	Exercised during the year		From	To	Expiry date
Angela Ahrendts	26/07/2007	850,000	–	–	850,000	26/07/2010	26/07/2011	25/07/2012
Stacey Cartwright	26/07/2007	350,000	–	–	350,000	26/07/2010	26/07/2011	25/07/2012

<sup>(1)</sup> Subject to performance testing

### The Burberry Senior Executive Restricted Share Plan 2004 (the 'RSP')

Under the RSP which was introduced in 2004, executives may be awarded shares up to a maximum value of two times base salary. The vesting of awards granted under the RSP is based 50% on Burberry's three-year Total Shareholder Return ('TSR') relative to its peers and 50% on three-year growth in profit before tax ('PBT').

Awards granted between 2004 and 2007 vest in full only if Burberry achieves at least upper quartile TSR relative to its global peers and at least 15% per annum PBT growth. A proportion of an award (12.5%) may vest if TSR performance exceeds the median of the peer group or if PBT growth exceeds 5% per annum over three years. Of the shares which meet the performance criteria, 50% vests after three years. The remaining 50% vests in two equal tranches on the fourth and fifth anniversaries of the date of grant.

Awards granted in 2009 will vest in full only if Burberry achieves at least upper quartile TSR relative to its global peers and at least 10% per annum PBT growth. A proportion of an award (12.5%) may vest if TSR performance exceeds the median of the peer group or if PBT growth exceeds 3% per annum over three years. Of the shares which meet the performance criteria, 50% vests after three years. The remaining 50% vests in two equal tranches on the fourth and fifth anniversaries of the date of grant. The Committee believes that these performance conditions were as challenging, given the significant changes in the economic environment, as those set when the RSP was adopted in 2004.

The Committee chose TSR relative to a group of Burberry's peers because it felt that this is an objective measure of the Group's success and aligns with shareholder interests. Growth in PBT was chosen as it continues to be the primary measure used by management and the Committee believes strong growth in pre-tax profit is key to delivering superior shareholder returns.

The TSR group for awards granted in 2009 and 2007 comprised Bulgari, Coach, Compagnie Financière Richemont, Estée Lauder, Fossil, Geox, Hermès International, Hugo Boss, Inditex, Liz Claiborne, Luxottica Group, LVMH Moët Hennessy Louis Vuitton, Nike, Nordstrom, Polo Ralph Lauren, PPR, Saks, Swatch, Tiffany & Co, and Tod's.

In 2006, the peer group included Christian Dior, IT Holding, Movado and Waterford Wedgwood, following review by the Committee, these companies were replaced by Geox, Inditex, Luxottica Group and Nike in 2007. In 2004 and 2005, the peer group included Barneys New York, Neiman-Marcus and Tommy Hilfiger. When those companies ceased to be listed, Estee Lauder, Fossil, Liz Claiborne and Nordstrom were added to the peer group in 2006.



## DIRECTORS' REMUNERATION REPORT CONTINUED

The interests of the executive directors in ordinary shares subject to awards under this plan as at 31 March 2010 were as follows:

	Date of grant	Number of ordinary shares					Vesting period <sup>(1)</sup>		
		As at 31 March 2009	Granted during the year <sup>(2)</sup>	Lapsed during the year <sup>(3)</sup>	Exercised during the year	As at 31 March 2010	From	To	Expiry date
Angela Ahrendts	11/06/2007	255,987	–	–	–	<b>255,987</b>	11/06/2010	11/06/2012	10/06/2017
	01/06/2009	–	450,000	–	–	<b>450,000</b>	01/06/2012	01/06/2014	31/05/2019
<b>Total</b>		<b>255,987</b>	<b>450,000</b>	<b>–</b>	<b>–</b>	<b>705,987</b>			
Stacey Cartwright	02/08/2004	37,129	–	–	37,129 <sup>(4)</sup>	–	02/08/2007	02/08/2009	01/08/2014
	21/07/2005	60,044	–	–	60,044 <sup>(4,5,6)</sup>	–	21/07/2008	02/03/2010	20/07/2015
	10/08/2006	94,837	–	54,532	30,228 <sup>(4,5,7)</sup>	<b>10,077</b>	10/08/2009	10/08/2011	09/08/2016
	27/11/2006	23,709	–	13,633	7,556 <sup>(4,5,8)</sup>	<b>2,520</b>	27/11/2009	27/11/2011	26/11/2016
	11/06/2007	74,098	–	–	–	<b>74,098</b>	11/06/2010	11/06/2012	10/06/2017
	01/06/2009	–	265,000	–	–	<b>265,000</b>	01/06/2012	01/06/2014	31/05/2019
<b>Total</b>		<b>289,817</b>	<b>265,000</b>	<b>68,165</b>	<b>134,957</b>	<b>351,695</b>			

<sup>(1)</sup> Subject to performance testing.

<sup>(2)</sup> The market value of Burberry shares on the date of grant (1 June 2009) was 395.25p.

<sup>(3)</sup> Following the calculation of the achievement of the performance conditions attaching to the awards granted on 10 August 2006 and 27 November 2006, 57.5% of these awards lapsed.

<sup>(4)</sup> The market value of Burberry shares on the date of exercise (27 November 2009) was 572.5p.

<sup>(5)</sup> The market value of Burberry shares on the date of exercise (2 March 2010) was 637p.

<sup>(6)</sup> The first and second tranches of the award (totalling 45,033 shares) granted on 21 July 2005 were exercised on 27 November 2009. The final tranche of the award (15,011 shares) was exercised on 2 March 2010; upon exercise sufficient shares were sold to meet the tax liability arising and the remaining shares may not be sold or transferred before the fifth anniversary of the date of grant.

<sup>(7)</sup> The first tranche of the award (20,152 shares) granted on 10 August 2006 was exercised on 27 November 2009. The second tranche of the award (10,076 shares) was exercised on 2 March 2010; upon exercise sufficient shares were sold to meet the tax liability arising and the remaining shares may not be sold or transferred before the fourth anniversary of the date of grant.

<sup>(8)</sup> The first tranche of the award (5,038 shares) granted on 27 November 2006 was exercised on 27 November 2009. The second tranche of the award (2,518 shares) was exercised on 2 March 2010; upon exercise sufficient shares were sold to meet the tax liability arising and the remaining shares may not be sold or transferred before the fourth anniversary of the date of grant.

On 31 January 2006, Angela Ahrendts was granted a one-off award under the terms of her service agreement. The rules applicable to the award were the same as for the RSP other than in respect of the time of vesting. The interests of Angela Ahrendts in shares subject to this award as at 31 March 2010 were as follows:

	Date of grant	Number of ordinary shares				Vesting period	
		As at 31 March 2009	Lapsed during the year	Exercised during the year <sup>(1, 2)</sup>	As at 31 March 2010	From	To
Angela Ahrendts	31/01/2006	158,898	–	158,898	–	01/12/2008	02/03/2010

<sup>(1)</sup> The market value of Burberry shares on the date of exercise (2 March 2010) was 637p.

<sup>(2)</sup> The exercise of the final tranche of the award took place on 2 March 2010. Upon exercise, sufficient shares were sold to meet the tax liability arising, the remaining shares may not be sold or transferred before 1 December 2010.

### The Burberry Senior Executive Share Option Scheme 2002 (the 'Executive Share Option Scheme')

The interests of executive directors in options granted under this scheme as at 31 March 2010 were as follows:

	Date of grant	Number of ordinary shares under option				Exercise price (p)	Exercise period	
		As at 31 March 2009	Lapsed during the year	Exercised during the year	As at 31 March 2010		From	To
Stacey Cartwright	02/08/2004	185,185	–	185,185	–	378.0	02/08/2005	01/08/2014

<sup>(1)</sup> The market value of Burberry shares on the date of exercise (27 November 2009) was 572.5p.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### The Burberry Approved Savings-Related Share Option Scheme (the 'Sharesave Scheme')

In order to encourage employee share ownership at all levels, the Group offers a Sharesave Scheme. The Sharesave Scheme offers executive directors and eligible employees an opportunity to enter into a long-term savings contract to save a portion of their salary which can be used to purchase Burberry shares at up to a 20% discount to the market price at the date of invitation. Where it is not possible to offer a Sharesave Scheme in countries due to regulatory issues, or where the number of employees based in that country would make its introduction financially unviable, the Group offers a cash-based scheme as an alternative.

The interests of the executive directors in options granted under the Sharesave Scheme are shown in the table below:

	Date of grant	Number of ordinary shares				As at 31 March 2010	Exercise price (p)	Exercise period	
		As at 31 March 2009	Granted during the year	Lapsed during the year	Exercised during the year			From	To
Angela Ahrendts	23/06/2006	2,667	–	–	2,667 <sup>(1)</sup>	–	350.5	01/09/2009	28/02/2010
Stacey Cartwright	23/06/2006	2,667	–	–	2,667 <sup>(2)</sup>	–	350.5	01/09/2009	28/02/2010
	30/06/2009	–	2,827	–	–	<b>2,827</b>	321.0	01/09/2012	28/02/2013

<sup>(1)</sup> The market value of Burberry shares on the date of exercise (8 December 2009) was 564p.

<sup>(2)</sup> The market value of Burberry shares on the date of exercise (1 December 2009) was 583p.

<sup>(3)</sup> The market value of Burberry shares on the date of grant (30 June 2009) was 423p.

### Dilution limits

The Group's share schemes contain limits that govern the quantum of awards that may be granted and the amount of newly issued shares that may be used to satisfy such awards. These limits are in line with the guidance of the Association of British Insurers in that no more than 10% of the Group's issued share capital may be allocated under the Group's relevant schemes over a rolling ten-year period.

### Shareholding policy

The Committee believes that share ownership provides an effective way to align the interests of executives with those of shareholders. The Group introduced a Shareholding Policy in 2007. Certain senior executives are expected to achieve an interest in Burberry shares equivalent to at least one times base salary over the five-year period to 2012. Executives are expected to retain a proportion of the shares acquired on the exercise of options and awards until such guidelines are met. The Chief Executive Officer and Chief Financial Officer are expected to hold an interest in shares with a value equivalent to at least three times and one and a half times base salary respectively by 2012. As at 31 March 2010, both the Chief Executive Officer and the Chief Financial Officer have complied with the policy.

As part of the Group's Shareholding Policy, the Chairman and non-executive directors are expected to acquire shares with a market value of a minimum of £6,000 for each year of their appointment. The Chairman and non-executive directors have complied with this policy.

### Gains made by directors on share options and awards

The table below shows notional gains made by individual directors from the exercise of share options and awards during the year to 31 March 2010. The gains are calculated by reference to the market value of Burberry's shares on the date of exercise.

	Number of ordinary shares		Notional gain in the year to 31 March 2010 £'000
	Exercised during the year	Retained as at 31 March 2010	
Angela Ahrendts	441,688	214,444	<b>£2,759</b>
Stacey Cartwright	555,868	257,432	<b>£2,574</b>

The changes to the personal tax regime in the United Kingdom in April 2010 created a significantly different tax position for the executive directors. The Company therefore brought forward the vesting of certain share awards which vest in 2010 in respect of which no further performance tests needed to be satisfied. The cost to the Company was minimal.

## DIRECTORS' REMUNERATION REPORT CONTINUED

### Directors' interests

The beneficial interests of the directors in the ordinary shares of Burberry Group plc (in addition to interests in options and share awards) are shown below:

	Holdings of ordinary shares as at 31 March 2010	Holding of ordinary shares as at 31 March 2009
Angela Ahrendts	431,939 <sup>(1)</sup>	411,031 <sup>(1)</sup>
Stacey Cartwright	404,439 <sup>(1)</sup>	147,007 <sup>(1)</sup>
John Peace	175,738	175,738
Philip Bowman	65,000	65,000
Ian Carter	26,690	17,990
Stephanie George	3,700	–
John Smith	1,011	–
David Tyler	60,000	60,000

<sup>(1)</sup> Includes Invested Shares under the Co-Investment Plan.

<sup>(2)</sup> The market price of an ordinary share on 31 March 2010 (the last dealing day in the financial year) was 714.5p. The highest and lowest market prices of an ordinary share in the year were 308p and 742p respectively.

As potential beneficiaries under the Burberry Group plc ESOP Trust (the 'Trust') Angela Ahrendts and Stacey Cartwright are deemed to have an interest in the Company's ordinary shares held by the Trust. The Trust held 228,492 ordinary shares as at 31 March 2010. There have been no further changes in the above interests between 31 March 2010 and 25 May 2010.

There are no other non-beneficial interests.

### Audit statement

In their audit opinion on page 81, PricewaterhouseCoopers LLP refer to their audit of the disclosures required by Schedule 8 to the Regulations. These comprise the following disclosures in this Directors' Remuneration Report: the disclosures under the headings 'Executive directors' remuneration', 'Executive directors' pension entitlements', 'Chairman and non-executive directors' remuneration', 'The Burberry Co-Investment Plan', 'The Burberry Exceptional Performance Share Plan', 'The Burberry Senior Executive Restricted Share Plan 2004', 'The Burberry Executive Share Option Scheme 2002' and 'The Burberry Approved Savings-Related Share Option Scheme' and the disclosures under the heading, 'Directors' Interests' on pages 73 to 79.

Approved by the Board and signed on its behalf by:

### David Tyler

Chairman of the Remuneration Committee  
25 May 2010



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Group and the parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 61 confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Directors' Report contained on page 62 includes a fair review of the development and performance of the business and the position of the Group together with a description of the principal risks and uncertainties that the Group faces which are contained on pages 48 to 51.

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BURBERRY GROUP PLC

We have audited the Group financial statements of Burberry Group plc for the year ended 31 March 2010 which comprise the Group Income Statement, Group Statement of Comprehensive Income, Group Balance Sheet, Group Statement of Changes in Equity, Group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

## Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 March 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement with respect to internal control and risk management systems and about share capital structure is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the parent Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 64, in relation to going concern; and
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Other matters

We have reported separately on the parent Company financial statements of Burberry Group plc for the year ended 31 March 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

## Kim Green (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London, 25 May 2010

## GROUP INCOME STATEMENT

	Note	Year to 31 March 2010 £m	Year to 31 March 2009 £m
<b>Revenue</b>	3	<b>1,279.9</b>	1,201.5
Cost of sales		<b>(475.9)</b>	(535.7)
<b>Gross profit</b>		<b>804.0</b>	665.8
Net operating expenses	4	<b>(632.9)</b>	(675.7)
<b>Operating profit/(loss)</b>		<b>171.1</b>	(9.9)

### Financing

Interest receivable and similar income	6	<b>1.1</b>	7.2
Interest payable and similar charges	6	<b>(6.2)</b>	(13.4)
<b>Net finance charge</b>	6	<b>(5.1)</b>	(6.2)
<b>Profit/(loss) before taxation</b>	5	<b>166.0</b>	(16.1)
Taxation	7	<b>(83.8)</b>	11.0
<b>Profit/(loss) for the year</b>		<b>82.2</b>	(5.1)

### Attributable to:

Equity holders of the Company		<b>81.4</b>	(6.0)
Minority interest		<b>0.8</b>	0.9
<b>Profit/(loss) for the year</b>		<b>82.2</b>	(5.1)

<b>Earnings/(loss) per share</b>			
– basic	8	<b>18.8p</b>	(1.4p)
– diluted	8	<b>18.4p</b>	(1.4p)

		£m	£m
Operating profit/(loss)		<b>171.1</b>	(9.9)
Exceptional items:			
– restructuring costs	4	<b>48.8</b>	54.9
– goodwill impairment charge	4	–	116.2
– store impairments and onerous lease provisions	4	–	13.4
– negative goodwill	4	–	(1.7)
– relocation of headquarters	4	–	7.9
<b>Adjusted operating profit</b>		<b>219.9</b>	180.8
<b>Adjusted earnings per share</b>			
– basic	8	<b>35.9p</b>	30.6p
– diluted	8	<b>35.1p</b>	30.2p

<b>Dividends per share</b>			
– interim	9	<b>3.50p</b>	3.35p
– proposed final (not recognised as a liability at 31 March)	9	<b>10.50p</b>	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	21	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
<b>Total comprehensive income for the period</b>		<b>81.2</b>	<b>99.8</b>
Total comprehensive income attributable to:			
Equity holders of the Company		79.8	98.8
Minority interest		1.4	1.0
		<b>81.2</b>	<b>99.8</b>



## GROUP BALANCE SHEET

	Note	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	10	64.6	57.5
Property, plant and equipment	11	256.1	258.6
Deferred tax assets	12	39.2	57.7
Trade and other receivables	13	11.0	9.5
Derivative financial assets	15	1.7	–
		<b>372.6</b>	<b>383.3</b>
<b>Current assets</b>			
Inventories	14	166.9	262.6
Trade and other receivables	13	128.4	187.2
Derivative financial assets	15	2.6	23.2
Income tax receivables		0.7	17.1
Cash and cash equivalents	16	468.4	252.3
		<b>767.0</b>	<b>742.4</b>
<b>Total assets</b>		<b>1,139.6</b>	<b>1,125.7</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	17	(26.5)	(23.8)
Deferred tax liabilities	12	(1.6)	(2.3)
Derivative financial liabilities	15	(0.2)	(0.4)
Retirement benefit obligations	18	(0.5)	(0.6)
Provisions for other liabilities and charges	19	(5.5)	(7.9)
		<b>(34.3)</b>	<b>(35.0)</b>
<b>Current liabilities</b>			
Bank overdrafts and borrowings	20	(206.4)	(244.7)
Derivative financial liabilities	15	(9.0)	(57.1)
Trade and other payables	17	(200.2)	(162.4)
Provisions for other liabilities and charges	19	(34.4)	(33.5)
Income tax liabilities		(51.8)	(49.1)
		<b>(501.8)</b>	<b>(546.8)</b>
<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>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Ordinary share capital	21	0.2	0.2
Share premium account		186.1	175.9
Capital reserve	21	27.2	27.2
Hedging reserve	21	(1.1)	(13.4)
Foreign currency translation reserve	21	136.3	150.2
Retained earnings		241.4	199.2
		<b>590.1</b>	<b>539.3</b>
<b>Minority interests in equity</b>		<b>13.4</b>	<b>4.6</b>
<b>Total equity</b>		<b>603.5</b>	<b>543.9</b>

The consolidated financial statements of Burberry Group plc (registered number 03458224) on pages 82 to 124 were approved by the Board on 25 May 2010 and signed on its behalf by:

**John Peace**                      **Stacey Cartwright**  
Chairman                          Executive Vice President, Chief Financial Officer

## 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			
<b>Balance as at 1 April 2008</b>		<b>0.2</b>	<b>174.3</b>	<b>58.6</b>	<b>262.2</b>	<b>495.3</b>	<b>–</b>	<b>495.3</b>
Profit/(loss) for the period		–	–	–	(6.0)	(6.0)	0.9	(5.1)
Other comprehensive income:								
Cash flow hedges	21	–	–	(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)
<b>Total comprehensive income/(expense) for the period</b>		<b>–</b>	<b>–</b>	<b>104.8</b>	<b>(6.0)</b>	<b>98.8</b>	<b>1.0</b>	<b>99.8</b>
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)
<b>Balance as at 31 March 2009</b>		<b>0.2</b>	<b>175.9</b>	<b>164.0</b>	<b>199.2</b>	<b>539.3</b>	<b>4.6</b>	<b>543.9</b>
Profit for the period		–	–	–	81.4	81.4	0.8	82.2
Other comprehensive income:								
Cash flow hedges	21	–	–	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)
<b>Total comprehensive income/(expense) for the period</b>		<b>–</b>	<b>–</b>	<b>(1.6)</b>	<b>81.4</b>	<b>79.8</b>	<b>1.4</b>	<b>81.2</b>
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)
<b>Balance as at 31 March 2010</b>		<b>0.2</b>	<b>186.1</b>	<b>162.4</b>	<b>241.4</b>	<b>590.1</b>	<b>13.4</b>	<b>603.5</b>

## GROUP STATEMENT OF CASH FLOWS

	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
Cash generated from operating activities		425.6	242.0
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	27	(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	9	(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	16	468.4	252.3
Bank overdrafts	20	(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	20	(1.2)	(45.4)
<b>Net cash</b>		<b>262.0</b>	<b>7.6</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation

Burberry Group (the Group) is a global luxury goods manufacturer, wholesaler and retailer. Licensing activity is also carried out, principally in Japan. All of the companies which comprise the Group are owned by Burberry Group plc (the Company) directly or indirectly.

The consolidated financial statements of the Group have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and parts of the Companies Act 2006 applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2009:

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#### IFRS 8 Operating segments

Requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes and regularly reviewed by the Board of Directors, in its capacity as the Chief Operating Decision Maker, in order to allocate resources to the segment and assess its performance. In order to comply with the requirements of this new standard, the Group has amended its segmental reporting information, restating comparative information as appropriate.

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#### IAS 1 (Revised) – Presentation of financial statements

Requires the presentation of items of income and expenses (that is 'non-owner changes in equity') in either a single performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) and requires such items to be presented separately from owner changes in equity in the statement of changes in equity. The Group has elected to present this information in the format of two performance statements – an income statement and a statement of comprehensive income, in line with the revised disclosure requirements.

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#### IFRS 7 (Amendment) Financial instruments: Disclosures

The amendment requires enhanced disclosures about fair value measurement and liquidity risk, including disclosure of fair value measurements by level of a fair value measurement hierarchy. The Group has amended the current year disclosures to reflect these additional requirements.

The new standards, amendments and interpretations issued and effective for the financial period commencing on or after 1 April 2009 which have not had a material impact on the financial statements of the Group include:

#### IAS 23 (Revised) Borrowing costs

#### IFRS 2 (Amendment) Share-based payments

#### IAS 1 (Amendment) Presentation of financial statements

#### IAS 39 (Amendment) Financial instruments: Recognition and measurement

#### IFRS 1 (Amendment) First time adoption of IFRS and IAS 27 (Amendment) Consolidated and separate financial statements

#### IFRIC 14 (IAS 19) The limit on a defined benefit asset, minimum funding requirements and their interaction

#### IFRIC 16 Hedges of a net investment in foreign operations

As at 31 March 2010, the following new and revised standards, amendments and interpretations, which are expected to be relevant to the Group's results, were issued but not yet effective:

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#### IFRS 3 (Revised) Business combinations

The standard will continue to apply the acquisition method to business combinations, but with certain significant changes. All payments to purchase a business will be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill and non-controlling (minority) interests may be calculated on a gross or net basis. All transaction costs will be expensed. The amendments took effect for annual periods beginning on or after 1 July 2009, and will be applied by the Group to all business combinations with effect from 1 April 2010.

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#### IAS 38 (Amendment) Intangible assets

The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The Group will apply the amendment from 1 April 2010, in line with the adoption of IFRS 3 (revised). No material financial impact is anticipated.

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#### IAS 36 (Amendment) Impairment of assets

The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined in IFRS 8. The amendment is effective from annual periods beginning on or after 1 January 2010, and will be applied by the Group with effect from 1 April 2010. No material financial impact is anticipated.

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## 1. Basis of preparation (continued)

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### IFRS 5 (Amendment) Non-current assets held for sale and discontinued operations

The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. The amendment will take effect for annual periods beginning on or after 1 January 2010 and will be applied by the Group with effect from 1 April 2010.

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### IAS 27 (Revised) Consolidated and separate financial statements

The revised standard requires that all changes in a parent's ownership interest in a subsidiary that do not result in a loss in control are to be accounted for as equity transactions. Where control is lost, any remaining interest in the entity is remeasured to fair value, with a gain or loss recognised in the income statement. The revised standard is effective from 1 July 2009 and will be applied by the Group with effect from 1 April 2010. No material financial impact is anticipated.

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### IAS 39 (Amendment) Financial instruments: Recognition and measurement

The amendment clarifies that gains or losses on cash flow hedges should be reclassified from equity to profit and loss in the period in which the hedged forecast cash flow affects profit and loss. The amendment will take effect for annual periods beginning on or after 1 January 2010, and will be applied by the Group with effect from 1 April 2010. No material financial impact is anticipated.

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### Basis of consolidation

The Group's annual financial statements comprise those of the parent Company and its subsidiaries, presented as a single economic entity. The results of the subsidiaries are prepared for the same reporting year as the parent Company, using consistent accounting policies.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the portion of the reporting period during which Burberry Group plc had control. The effects of intra-group transactions are eliminated in preparing the Group financial statements.

### Key sources of estimation and judgement

Preparation of the consolidated financial statements in conformity with IFRS requires that management make certain judgements, estimates and assumptions that affect the reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from actual circumstances, the original estimate and assumptions will be modified as appropriate in the period in which the circumstances change.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Such estimates include, but are not limited to, impairment of trade and other receivables, goodwill and asset impairment, inventory provisioning, provisions for onerous leases, restructuring provisions and income and deferred taxes. These are discussed below:

#### Impairment of trade and other receivables

A provision for impairment of trade and other receivables is established where management estimate that the Group will not be able to collect all amounts due according to the original terms of receivables.

#### Impairment of goodwill

The Group is required to test whether goodwill has suffered any impairment. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash generating unit and the choice of a suitable discount rate in order to calculate the present value.

#### Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

#### Inventory provisioning

The Group manufactures and sells luxury goods and is subject to changing consumer demands and fashion trends. As a result, it is necessary to consider the recoverability of the cost of inventories and the associated provisioning required. Inventory provisioning is based on the age and condition of inventory, as well as anticipated saleability.

## 1. Basis of preparation (continued)

### Provisions for onerous leases

Provisions for onerous leases, measured net of expected rentals, are recognised when the leased property becomes vacant and is no longer used in the operations of the business. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

### Provision for restructuring

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

### Income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the provision for income taxes in each territory. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions and assets in the period in which such determination is made.

## 2. Accounting policies

The consolidated financial information of Burberry Group plc and all its subsidiaries have been prepared in accordance with IFRS. The principal accounting policies of the Group are:

### a) Revenue

Revenue, which is stated excluding Value Added Tax and other sales related taxes, is the amount receivable for goods supplied (less returns, trade discounts and allowances) and royalties receivable.

Wholesale sales are recognised when goods are despatched to trade customers, as this reflects the transfer of risks and rewards of ownership, with provisions made for expected returns and allowances. Retail sales, returns and allowances are reflected at the dates of transactions with customers. Provisions for returns on retail and wholesale sales are calculated based on historical return levels. Royalties receivable from licensees are accrued as earned on the basis of the terms of the relevant royalty agreement, which is typically on the basis of production volumes.

### b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance, has been identified as the Board of Directors.

### c) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

### d) Share schemes

The cost of the share incentives received by employees (including executive directors) is measured with reference to the fair value of the equity instruments awarded at the date of grant. The Black-Scholes option pricing model is used to determine the fair value of the award made. The impact of performance conditions is not considered in determining the fair value on the date of grant, except for conditions linked to the price of Burberry Group plc shares i.e. market conditions. Vesting conditions which relate to non-market conditions are allowed for in the assumptions used for the number of options expected to vest. The estimate of the number of options expected to vest is revised at each balance sheet date.

The cost of the share based incentives is recognised as an expense over the vesting period of the awards, with a corresponding increase in equity.

The proceeds received from the exercise of the equity instruments awarded, net of any directly attributable transaction costs, are credited to share capital and share premium.

### e) Operating leases

Burberry Group is a lessee of property. Gross rental expenditure in respect of operating leases is recognised on a straight line basis over the period of the leases. Certain rental expenses are determined on the basis of revenue achieved in specific retail locations and are accrued for on that basis.

Amounts paid to acquire the rights to a lease (lease premiums) are written off in equal annual instalments over the life of the lease contract. Lease incentives, typically rent free periods and capital contributions, are recognised over the term of the lease to the first break clause.

**2. Accounting policies (continued)**

**f) Dividend distribution**

Dividend distributions to Burberry Group plc's shareholders are recognised as a liability in the period in which the dividends are approved by the shareholders. Interim dividends are recognised when paid.

**g) Pension costs**

**Defined benefit schemes**

Eligible employees of the Group participate in defined benefit schemes in France and Taiwan.

Where arrangements are funded, assets are held in independently administered trusts.

The liability recognised in the Balance Sheet in respect of defined benefit schemes represents the Group's share of the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the Projected Unit Credit method.

The cost of providing defined benefit schemes to participating employees is charged to the Income Statement over the anticipated period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised directly in equity.

**Defined contribution schemes**

Eligible employees also participate in defined contribution pension schemes, the principal one being in the UK with its assets held in an independently administered fund. The cost of providing these benefits to participating employees is recognised in the Income Statement and comprises the amount of contributions payable to the schemes in respect of the year.

**h) Intangible fixed assets**

**Goodwill**

Goodwill is the excess of purchase consideration over the fair value of identifiable net assets acquired. Goodwill on acquisition is recorded as an intangible fixed asset. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to align the accounting policies of acquired businesses with those of the Group.

Goodwill is assigned an indefinite useful economic life. Impairment reviews are performed annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

**Trade marks and trading licences**

The cost of securing and renewing trade marks and other intellectual property is capitalised as an intangible fixed asset and amortised by equal annual instalments over its useful economic life, typically ten years. The useful economic life of trade marks and other intellectual property is determined on a case-by-case basis, in accordance with the terms of the underlying agreement.

**Computer software**

The cost of acquiring computer software (including licences and separately identifiable external development costs) is capitalised as an intangible asset at purchase price, plus any directly attributable cost of preparing that asset for its intended use. Software costs are amortised by equal annual instalments over their estimated useful economic lives, which are up to five years.

**i) Property, plant and equipment**

Property, plant and equipment is stated at cost or deemed cost, based on historical revalued amounts, less accumulated depreciation and provision to reflect any impairment in value. Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use.

**Depreciation**

Depreciation of property, plant and equipment is calculated to write off the cost or deemed cost, less residual value, of the assets in equal annual instalments over their estimated useful lives at the following rates:

Land	Not depreciated
Freehold buildings	Up to 50 years
Leaseholds – less than 50 years expired	Over the unexpired term of the lease
Plant, machinery, fixtures and fittings	3 – 8 years
Retail fixtures and fittings	2 – 5 years
Office equipment	5 years
Computer equipment	Up to 5 years

**Profit/loss on disposal of property, plant and equipment**

Profits and losses on the disposal of property, plant and equipment represent the difference between the net proceeds and net book value at the date of sale. Disposals are accounted for when the relevant transaction becomes unconditional.

## 2. Accounting policies (continued)

### j) Impairment of non-financial assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

### k) Inventories

Inventories and work in progress are valued on a first-in-first-out basis at the lower of cost (including an appropriate proportion of production overhead) and net realisable value. Provision is made to reduce cost to no more than net realisable value having regard to the age and condition of inventory, as well as its anticipated saleability.

### l) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense which are taxable or deductible in other years and it further excludes items which are never taxable or deductible. The Group's liability for current tax is calculated using tax rates which have been enacted or substantially enacted by the balance sheet date.

Deferred tax liabilities are provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is exempt from deferred tax. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### m) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. When the effect of the time value of money is material, provision amounts are calculated on the present value of the expenditures expected to be required to settle the obligation. The present value is calculated using forward market interest rates, as measured at the balance sheet reporting date, which have been adjusted for risks reflected in future cash flow estimates.

### n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### o) Financial instruments

A financial instrument is initially recognised at fair value on the Balance Sheet when the entity becomes a party to the contractual provisions of the instrument. A financial asset is no longer recognised when the contractual rights to the cash flow expire or substantially all risks and rewards of the asset are transferred. A financial liability is no longer recognised when the obligation specified in the contract is discharged, cancelled or expires.

The Group's financial instruments consist primarily of cash and cash equivalents, accounts receivable, accounts payable, borrowings and derivative financial instruments.

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value. Financial liabilities held at amortised cost include trade payables, accruals and borrowings.



## 2. Accounting policies (continued)

The Group classifies its investments in the following categories: financial assets at fair value through the profit or loss and loans and receivables. Loans and receivables include trade and other receivables and cash and other equivalents. Derivatives are classified as held for trading unless in a hedging relationship and are held at fair value.

### Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term deposits with an original maturity date of three months or less, held with banks and liquidity funds. Bank overdrafts are recorded under current liabilities on the Balance Sheet.

### Trade and other receivables

Trade and other receivables arise when the Group provides money, goods or services directly to a third party with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the Income Statement.

### Trade and other payables

Trade and other payables arise when the Group acquires money, goods or services directly from a supplier. They are included in current liabilities, except for maturities greater than twelve months after the balance sheet date. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### Borrowings

Borrowings are recognised initially at fair value, inclusive of transaction costs incurred. Borrowings are subsequently stated at amortised cost and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### Derivative instruments

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates arising on certain trading transactions. The principal derivative instruments used are forward foreign exchange contracts taken out to hedge highly probable cash flows in relation to future sales, royalty receivables and product purchases. To manage interest rate risk the Group manages its proportion of fixed and floating rate borrowings to within limits approved by the Board using interest rate swap derivatives. It designates foreign currency borrowings in a net investment hedge of the assets of overseas subsidiaries.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives are initially recognised at fair value at the trade date and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets and liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) classified as held for trading.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Income Statement immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion of the gain or loss is recognised immediately in the Income Statement. Amounts deferred in equity are recycled in the Income Statement in the periods when the hedged item affects the Income Statement. If it is expected that all or a portion of a loss deferred in equity will not be recovered in one or more future periods, or the hedged transaction is no longer expected to occur, the amount that is not expected to be recovered is reclassified to the Income Statement. If a derivative instrument is not designated as a hedge, the subsequent change to the fair value is recognised in the Income Statement within operating expenses.

Where the Group hedges net investments in foreign operations through foreign currency borrowings, the gains or losses on the retranslation of the borrowings are recognised in equity.

**2. Accounting policies (continued)**

p) Foreign currency translation

**Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

**Transactions in foreign currencies**

Transactions denominated in foreign currencies within each entity in the Group are translated into the functional currency at the exchange rate ruling at the monthly average exchange rate. Monetary assets and liabilities denominated in foreign currencies, which are held at the year end, are translated into the functional currency at the exchange rate ruling at the balance sheet date. Exchange differences on monetary items are recognised in the Income Statement in the period in which they arise, except where these exchange differences form part of a net investment in overseas subsidiaries of the Group, in which case such differences are taken directly to the foreign currency translation reserve within equity.

**Translation of the results of overseas businesses**

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

q) 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.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 3. 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.

	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)
<b>Revenue from external customers</b>	<b>1,182.4</b>	<b>1,118.9</b>	<b>97.5</b>	<b>82.6</b>	<b>1,279.9</b>	<b>1,201.5</b>
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)
<b>Profit/(loss) before taxation</b>					<b>166.0</b>	<b>(16.1)</b>
Capital expenditure	73.2	95.4	–	–	73.2	95.4
<b>Total segment assets</b>	<b>589.1</b>	<b>750.6</b>	<b>7.3</b>	<b>14.9</b>	<b>596.4</b>	<b>765.5</b>
Goodwill					34.9	33.1
Cash and cash equivalents					468.4	252.3
Taxation					39.9	74.8
<b>Total assets per balance sheet</b>					<b>1,139.6</b>	<b>1,125.7</b>

(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 4 for details of exceptional items.

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

**3. Segmental analysis (continued)**

	Year to 31 March 2010 £m	Year to 31 March 2009 (restated) £m
<b>Revenue by destination</b>		
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
<b>Retail/Wholesale</b>	<b>1,182.4</b>	<b>1,118.9</b>
<b>Licensing</b>	<b>97.5</b>	<b>82.6</b>
<b>Total</b>	<b>1,279.9</b>	<b>1,201.5</b>

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 US (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).

**4. 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)
<b>Exceptional items</b>		
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
<b>Total</b>	<b>632.9</b>	<b>675.7</b>

**Exceptional items**

In the year to 31 March 2010, the Group 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.



**5. 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 (note 26)	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
<b>Exceptional items</b>		
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 STATEMENTS CONTINUED

**6. 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)
<b>Net finance charge</b>	<b>(5.1)</b>	<b>(6.2)</b>

**7. 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
<b>Current tax</b>		
<b>UK corporation tax</b>		
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
<b>Foreign tax</b>		
Current tax on income for the year	23.1	8.3
Adjustments in respect of prior years	5.2	(1.9)
<b>Total current tax</b>	<b>71.0</b>	<b>16.9</b>
<b>Deferred tax</b>		
<b>UK deferred tax</b>		
Origination and reversal of temporary differences	(0.7)	(2.4)
Adjustments in respect of prior years	2.7	1.8
	2.0	(0.6)
<b>Foreign deferred tax</b>		
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
<b>Total deferred tax</b>	<b>12.8</b>	<b>(27.9)</b>
<b>Total tax charge/(credit) on profit/(loss)</b>	<b>83.8</b>	<b>(11.0)</b>

**7. Taxation (continued)**

Analysis of charge for the year recognised in equity

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
<b>Current tax</b>		
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
<b>Total current tax recognised in equity</b>	<b>(2.2)</b>	<b>3.5</b>
<b>Deferred tax</b>		
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
<b>Total deferred tax recognised in equity</b>	<b>4.5</b>	<b>0.1</b>

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)
<b>Total taxation charge/(credit)</b>	<b>83.8</b>	<b>(11.0)</b>

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)
<b>Total taxation charge/(credit)</b>	<b>83.8</b>	<b>(11.0)</b>

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 in relation 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 STATEMENTS CONTINUED

### 8. 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 the 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)
<b>Attributable profit/(loss) for the year</b>	<b>81.4</b>	<b>(6.0)</b>

(1) Refer to note 4 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 the 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
<b>Diluted weighted average number of ordinary shares in issue during the year</b>	<b>441.9</b>	<b>438.1</b>

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

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

(1) Refer to note 4 for details of exceptional items.

### 9. 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
<b>Total</b>	<b>52.5</b>	<b>51.7</b>

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 STATEMENTS CONTINUED

10. Intangible assets

Cost	Goodwill £m	Trade marks, trading licences and other £m	Computer software £m	Total £m
<b>As at 1 April 2008</b>	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)
<b>As at 31 March 2009</b>	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 27)	0.6	–	–	0.6
Disposals	–	(0.6)	(1.1)	(1.7)
Impairment charge	(1.4)	–	–	(1.4)
Reclassification from assets under construction (note 11)	–	–	5.2	5.2
<b>As at 31 March 2010</b>	<b>34.9</b>	<b>17.1</b>	<b>38.2</b>	<b>90.2</b>

Accumulated amortisation

<b>As at 1 April 2008</b>	–	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
<b>As at 31 March 2009</b>	–	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)
<b>As at 31 March 2010</b>	–	<b>9.0</b>	<b>16.6</b>	<b>25.6</b>

Net book value

<b>As at 31 March 2010</b>	<b>34.9</b>	<b>8.1</b>	<b>21.6</b>	<b>64.6</b>
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
<b>Total</b>	<b>34.9</b>	<b>33.1</b>

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.

**11. Property, plant and equipment**

<b>Cost</b>	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Assets in the course of construction £m	Total £m
<b>As at 1 April 2008</b>	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
<b>As at 31 March 2009</b>	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 27)	–	–	0.8	–	0.8
<b>As at 31 March 2010</b>	<b>92.2</b>	<b>169.2</b>	<b>226.2</b>	<b>9.6</b>	<b>497.2</b>
<b>Accumulated depreciation</b>					
<b>As at 1 April 2008</b>	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)
<b>As at 31 March 2009</b>	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)
<b>As at 31 March 2010</b>	<b>33.1</b>	<b>62.5</b>	<b>145.5</b>	<b>–</b>	<b>241.1</b>
<b>Net book value</b>					
<b>As at 31 March 2010</b>	<b>59.1</b>	<b>106.7</b>	<b>80.7</b>	<b>9.6</b>	<b>256.1</b>
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) relates 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 the Group's weighted average cost of capital adjusted for the country-specific tax rates and risk.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 12. Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and there is an intention to settle on a net basis, and to the same fiscal authority. The offset amounts are shown in the table below:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Deferred tax assets	39.2	57.7
Deferred tax liabilities	(1.6)	(2.3)
<b>Net amount</b>	<b>37.6</b>	<b>55.4</b>

The movement in the deferred tax account is as follows:

	As at 31 March 2010 £m	Year to 31 March 2009 £m
As at 1 April	55.4	25.2
Effect of foreign exchange rate changes	(0.5)	2.4
(Charged)/credited to the income statement	(12.8)	27.9
Charged to equity	(4.5)	(0.1)
<b>As at 31 March</b>	<b>37.6</b>	<b>55.4</b>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the off-setting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities	Accelerated capital allowances £m	Unrealised inventory profit and other inventory provisions £m	Derivative instruments £m	Unused tax losses £m	Other £m	Total £m
<b>As at 1 April 2008</b>	12.6	(2.0)	0.1	(0.3)	(1.7)	8.7
Effect of foreign exchange rate changes	4.1	(0.6)	–	(0.1)	(0.4)	3.0
Charged/(credited) to the income statement	7.9	(3.5)	–	(2.6)	11.8	13.6
<b>As at 31 March 2009</b>	24.6	(6.1)	0.1	(3.0)	9.7	25.3
Effect of foreign exchange rate changes	(1.7)	0.2	–	0.2	0.3	(1.0)
Charged/(credited) to the income statement	(7.1)	1.5	(0.1)	(1.6)	(10.9)	(18.2)
<b>As at 31 March 2010</b>	<b>15.8</b>	<b>(4.4)</b>	<b>–</b>	<b>(4.4)</b>	<b>(0.9)</b>	<b>6.1</b>

**12. Deferred taxation (continued)**

Deferred tax assets

	Accelerated capital allowances £m	Unrealised inventory profit and other inventory provisions £m	Share schemes £m	Derivative instruments £m	Unused tax losses £m	Other £m	Total £m
<b>As at 1 April 2008</b>	2.9	13.0	10.1	2.6	–	5.3	33.9
Effect of foreign exchange rate changes	0.5	3.2	0.1	–	0.1	1.5	5.4
(Charged)/credited to the income statement	(1.4)	14.4	(3.3)	–	21.4	10.4	41.5
(Charged)/credited to equity	–	–	(2.8)	3.1	–	(0.4)	(0.1)
<b>As at 31 March 2009</b>	2.0	30.6	4.1	5.7	21.5	16.8	80.7
Effect of foreign exchange rate changes	(0.1)	(0.5)	–	–	0.6	(1.5)	(1.5)
(Charged)/credited to the income statement	3.2	(13.3)	0.6	–	(15.2)	(6.3)	(31.0)
(Charged)/credited to equity	–	–	7.1	(5.0)	–	(6.6)	(4.5)
<b>As at 31 March 2010</b>	<b>5.1</b>	<b>16.8</b>	<b>11.8</b>	<b>0.7</b>	<b>6.9</b>	<b>2.4</b>	<b>43.7</b>

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of £45.7m (2009: £7.1m) in respect of losses and temporary timing differences amounting to £151.1m (2009: £23.1m) that can be set off against future taxable income. There is a time limit for the recovery of £41.3m of these potential assets (2009: £2.2m) which ranges from five to fifteen years.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain subsidiaries were remitted to the UK. Such amounts are either reinvested for the foreseeable future or can be remitted free of tax. Unremitted earnings totalled £219.1m (2009: £180.7m).



NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Trade and other receivables

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Non-current</b>		
Deposits and prepayments	11.0	9.5
<b>Total non-current trade and other receivables</b>	<b>11.0</b>	<b>9.5</b>
<b>Current</b>		
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
<b>Total current trade and other receivables</b>	<b>128.4</b>	<b>187.2</b>
<b>Total trade and other receivables</b>	<b>139.4</b>	<b>196.7</b>

£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 4). The ageing of the impaired receivables is as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Current	8.3	–
Less than one month overdue	6.1	1.6
One to three months overdue	3.5	1.4
Over three months overdue	6.1	5.3
	<b>24.0</b>	<b>8.3</b>

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 one month overdue	3.5	5.9
One to three months overdue	0.3	4.7
Over three months overdue	–	2.6
	<b>3.8</b>	<b>13.2</b>

Movement on the provision for doubtful debts is as follows:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
As 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)
<b>As at 31 March</b>	<b>16.8</b>	<b>7.6</b>

**13. 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
	<b>139.4</b>	<b>196.7</b>

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.

**14. 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
<b>Total inventories</b>	<b>166.9</b>	<b>262.6</b>

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).

**15. Derivative financial instruments**

The Group Income Statement is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, the Group has a policy of hedging foreign currency denominated transactions by entering into forward foreign exchange contracts. These transactions are recorded as cash flow hedges.

**Cash flow hedges**

The Group's foreign currency denominated transactions arise principally from royalty income, sales and purchases. The Group manages these exposures by the use of forward foreign exchange contracts.

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Derivative financial assets</b>		
Forward foreign exchange contracts – cash flow hedges	1.7	20.1
Forward foreign exchange contracts – held for trading	0.1	3.1
Equity swap contracts – held for trading	2.5	–
<b>Total position</b>	<b>4.3</b>	<b>23.2</b>
Comprising of:		
Total non-current position	1.7	–
Total current position	2.6	23.2

Total cash flow hedge gains of £1.7m (2009: £20.1m) are expected to be recognised within twelve months.

**15. Derivative financial instruments (continued)**

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Derivative financial liabilities</b>		
Forward foreign exchange contracts – cash flow hedges	(9.2)	(35.8)
Interest rate swap contracts – cash flow hedges	–	(1.6)
Total cash flow hedges at end of year	(9.2)	(37.4)
Forward foreign exchange contracts – held for trading	–	(18.5)
Equity swap contracts – held for trading	–	(1.6)
<b>Total position</b>	<b>(9.2)</b>	<b>(57.5)</b>
Comprising of:		
Total non-current position	(0.2)	(0.4)
Total current position	(9.0)	(57.1)

Total cash flow hedge losses of £9.0m (2009: £37.0m) are expected to be recognised within twelve months.

The current portion of the financial instruments matures at various dates within one month to one year from the balance sheet date.

**Net derivative financial instruments**

	As at 31 March 2010 £m	As at 31 March 2009 £m
– book value	(4.9)	(34.3)
– fair value	(4.9)	(34.3)

The fair value of forward foreign exchange contracts is based on a comparison of the contractual and market rates after discounting using the appropriate yield curves as at 31 March each year. All fair value measurements are calculated using inputs which are based on observable market data (Level 2).

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Additional information</b>		
Notional principal amounts of the outstanding forward foreign exchange contracts	313.5	626.6
Notional principal amounts of the outstanding interest rate swap contracts	–	45.4
Notional principal amounts of the outstanding equity swap contracts	3.5	4.8
Ineffective portion of cash flow hedges released from equity to the income statement during the year	0.1	(4.4)
Movement on the non-designated hedges for the year recognised within net operating costs in the income statement	5.6	(1.3)
Movement on the non-designated hedges for the year recognised within net finance charge in the income statement (note 6)	–	1.0
Movement on interest rate swaps for the year recognised within net finance charge in the income statement (note 6)	(1.4)	–

During the year, £0.1m (2009: £4.4m) of cash flow hedges were considered to be ineffective and were recognised immediately in the Income Statement within net operating costs. This arose from changes to 'highly probable' forecast transactions during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. 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
<b>Total</b>	<b>468.4</b>	<b>252.3</b>

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

17. Trade and other payables

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Non-current</b>		
Other creditors, accruals and deferred income	26.5	23.8
<b>Total non-current trade and other payables</b>	<b>26.5</b>	<b>23.8</b>
<b>Current</b>		
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
<b>Total current trade and other payables</b>	<b>200.2</b>	<b>162.4</b>
<b>Total trade and other payables</b>	<b>226.7</b>	<b>186.2</b>

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.



**18. Retirement benefit obligations**

The Group provides post-retirement arrangements for its employees in the UK and its overseas operations, which are either defined benefit or defined contribution in nature. Where arrangements are funded, assets are held in independently administered trusts.

The Balance Sheet obligations in respect of the Group's post-retirement arrangements, assessed in accordance with IAS 19, were:

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Defined benefit schemes</b>		
Retirement Indemnities France	0.2	0.3
Burberry (Taiwan) Co Ltd retirement scheme	0.3	0.3
<b>Total obligation</b>	<b>0.5</b>	<b>0.6</b>

No prepayments or obligations exist in respect of defined contribution schemes at 31 March 2010 (2009: £nil).

The pension costs charged to the Group Income Statement in relation to defined contribution schemes were:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Europe	3.6	2.7
Americas	1.2	1.4
Asia Pacific	0.5	0.2
<b>Total pension costs</b>	<b>5.3</b>	<b>4.3</b>

Costs charged to the Group Income Statement in relation to defined benefit schemes during the year to 31 March 2010 were £nil (2009: £nil).

**Defined benefit schemes**

**Retirement Indemnities France**

Burberry France SASU offers lump sum benefits at retirement to all employees that are employed by the Company based on the length of service and salary. There are no assets held by Group companies in relation to this commitment.

**Burberry (Taiwan) Co Ltd retirement scheme**

Burberry (Taiwan) Co Ltd offers lump sum benefits at retirement to employees transferred from one of the previous operators based on the length of service up to date of transfer (i.e. 1 August 2005) and salary at retirement. There are no assets held by Group companies in relation to this commitment. From 1 August 2005, all employees of the Company joined the defined contribution scheme operated under local labour ordinance.

**Defined contribution schemes**

The Group participates in a number of defined contribution schemes. The details of the main plans are:

**Burberry stakeholder plan UK**

This plan was introduced on 1 April 2006 when the Experian (formerly GUS) money purchase pension plan UK closed for Burberry employees. All UK employees are eligible to participate in this scheme. The assets of this scheme are held separately in an independently administered fund.

**Burberry money purchase plan US**

The Group administers a money purchase plan in the US (a 401(k) scheme), which covers all eligible full-time employees who have reached the age of 21 and have completed one full year of service. The assets of the scheme are held separately from those of the Group in an independently administered fund.

**Burberry Asia Limited retirement scheme**

The Group administers a money purchase plan in Hong Kong, which covers all eligible full-time employees. The assets of the scheme are held separately from those of the Group in an independently administered fund.

**19. Provisions for other liabilities and charges**

	Property obligations £m	Restructuring costs <sup>(1)</sup> £m	Total £m
<b>Balance as at 1 April 2008</b>	3.7	–	3.7
Created during the year	10.7	27.5	38.2
Utilised during the year	(0.5)	–	(0.5)
<b>Balance as at 31 March 2009</b>	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 4).

	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.

**20. 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.

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).

Refer to note H on page 133 for details of the guarantees associated with these facilities.

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.

**21. Share capital and reserves**

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Authorised share capital</b>		
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
<b>Allotted, called up and fully paid share capital</b>		
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	–
<b>As at 31 March 2010</b>	<b>435,024,782</b>	<b>0.2</b>

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.

	Other reserves			Total £m
	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	
<b>Balance as at 1 April 2008</b>	(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
<b>Balance as at 31 March 2009</b>	(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)
<b>Balance as at 31 March 2010</b>	<b>(1.1)</b>	<b>136.3</b>	<b>27.2</b>	<b>162.4</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 22. Financial commitments

Burberry Group has commitments relating to future minimum lease payments under non-cancellable operating leases on land and buildings as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Amounts falling due:		
Within one year	70.7	47.0
Between two and five years	215.8	133.7
After five years	188.0	115.9
<b>Total</b>	<b>474.5</b>	<b>296.6</b>

The financial commitments for operating lease amounts calculated as a percentage of revenue ('revenue leases') have been based on the minimum payment that is required under the terms of the relevant lease. Under certain revenue leases, there are no minimums and therefore no financial commitment is included in the table above. As a result, the amounts charged to the Income Statement may be materially higher than the financial commitment at the prior year end.

Where rental agreements include a contingent rental, this contingent rent is generally calculated as a percentage of revenue. Escalation clauses increase the rental to either open market rent, a stipulated amount in the rental agreement, or by an inflationary index percentage. There are no significant restrictions imposed by these lease agreements.

The total of future minimum sublease payments to be received under non-cancellable subleases is as follows:

	Land and buildings	
	As at 31 March 2010 £m	As at 31 March 2009 £m
Amounts falling due:		
Within one year	0.2	–
Between two and five years	1.7	–
After five years	0.6	–
<b>Total</b>	<b>2.5</b>	<b>–</b>

### 23. 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
<b>Total</b>	<b>3.4</b>	<b>1.7</b>

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.



#### 24. 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.

#### 25. Financial risk management

Other than derivatives, the Group's principal financial instruments, comprise cash and short-term deposits, external borrowings, trade receivables and payables, arising directly from operations.

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, price risk and interest rate risk), credit risk, liquidity risk and capital risk.

Risk management is carried out by Group Treasury to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs and to invest in cash assets safely and profitably. This is done in close co-operation with the Group's operating units. Group Treasury does not operate as a profit centre and transacts only in relation to the underlying business requirements. The policies of the Group Treasury department are reviewed and approved by the Board of Directors. The Group uses derivative instruments to hedge certain risk exposures.

##### Market risk

##### Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

The Group's Income Statement is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, the Group has a policy of hedging foreign currency denominated transactions by entering into forward foreign exchange contracts (see note 15). The Group's accounting policy in relation to derivative instruments is set out in note 2.

The Group's Treasury risk management policy is to hedge anticipated cash flows in each major foreign currency that qualify as 'highly probable' forecast transactions for hedge accounting purposes.

The Group monitors the desirability of hedging the net assets of the overseas subsidiaries when translated into Sterling for reporting purposes. It has not entered into any specific transactions for this purpose.

At 31 March 2010, the Group has performed sensitivity analysis to determine the effect of non-Sterling currencies strengthening/weakening by 20% (2009: 20%) against Sterling with all other variables held constant. The effect of translating foreign currency denominated net debt, receivables, payables and financial instruments at fair value through profit or loss would have decreased/increased post-tax profit for the year by £0.8m (2009: increased/decreased £7.0m). The effect of translating forward foreign exchange contracts designated as cash flow hedges and Sterling denominated loans held in overseas subsidiaries would have decreased/increased equity by £12.5m (2009: £20.0m).

The following table shows the extent to which Burberry Group has monetary assets and liabilities at the year end in currencies other than the local currency of operation, after accounting for the effect of any specific forward foreign exchange contracts used to manage currency exposure. Monetary assets and liabilities refer to cash, deposits, borrowings and amounts to be received or paid in cash. Foreign exchange differences on retranslation of these assets and liabilities are recognised in the Income Statement.

Net foreign currency monetary assets/(liabilities) held in currencies other than the local currency of operation:

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Sterling	0.9	0.2
US Dollar	0.7	(47.8)
Euro	(1.9)	(0.8)
Other currencies	-	(0.5)
<b>Total</b>	<b>(0.3)</b>	<b>(48.9)</b>

**25. Financial risk management (continued)**

**Price risk**

The Group is exposed to employer's national insurance liability due to the implementation of various employee share incentive schemes.

To reduce exposure to fluctuations in the employer's national insurance liability due to movements in the Group's share price, the Group has a policy of entering into equity swaps at the time of granting share options and awards. The Group does not seek hedge accounting treatment for equity swaps. The Group monitors its exposure to fluctuations in the employer's national insurance liability on an ongoing basis to ensure it remains immaterial.

**Cash flow interest rate risk**

The Group's exposure to market risk for changes in interest rates relates primarily to cash, short-term deposits and external borrowings.

The external borrowings are linked to the LIBOR rate, while cash and short-term borrowings are affected by local market rates around the Group. The borrowings at variable rates expose the Group to cash flow interest rate risk. To manage interest rate risk Burberry Group manages its proportion of fixed and floating rate borrowings to within limits approved by the Board using interest rate swap derivatives. The Group entered into an interest rate swap, with a notional principal of US \$65m, to convert floating rate borrowings into fixed rate borrowings, at a fixed interest rate of 3.545%. The interest rate swap was closed out during the current year in line with the Group's treasury policy.

The interest rate risk profile of Burberry Group's fixed and floating rate financial liabilities by currency is as follows:

	As at 31 March 2010		As at 31 March 2009	
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m
Sterling	–	–	0.1	–
US dollar	–	–	–	45.4
Other currencies	1.4	–	–	–
<b>Total financial liabilities</b>	<b>1.4</b>	<b>–</b>	<b>0.1</b>	<b>45.4</b>

The floating rate financial liabilities at 31 March 2010 and 2009 exclude cash pool overdraft balances of £205.0m (2009: £199.2m). No interest is payable on all other non-derivative financial liabilities.

At 31 March 2010, if interest rates on Sterling denominated borrowings had been 200 basis points higher/lower (2009: 200 basis points) with all other variables held constant, post-tax profit for the year would have been £0.1m (2009: £1.7m) lower/higher, as a result of higher/lower interest expense on floating rate borrowings.

The Group has no other significant floating rate foreign currency borrowings and therefore is not exposed to movements in foreign currency interest rates.

**Credit risk**

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant and default rates have historically been very low. An ageing of overdue receivables is included in note 13. The maximum credit risk exposure of the Group's financial assets at the end of the period is represented by the amounts reported under the corresponding balance sheet headings.

With respect to credit risk arising from other financial assets, which comprise cash and short-term deposits and certain derivative instruments, the Group's exposure to credit risk arises from the default of the counterparty with a maximum exposure equal to the carrying value of these instruments. The Group has policies that limit the amount of credit exposure to any financial institution.

The Group has deposited €0.2m (2009: €2.5m) and CHF 0.3m (2009: CHF 0.3m) which is held as collateral at a number of European banks.

**25. Financial risk management (continued)**

**Liquidity risk**

The Group's financial risk management policy aims to ensure that sufficient cash is maintained to meet foreseeable needs and close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. For further details of this, see note 20.

All short-term trade creditors, accruals, bank overdrafts and borrowings mature within one year or less. The maturity profile of the carrying amount of non-current financial liabilities, is as follows:

As at 31 March 2010	Non-current portion of derivative financial liabilities £m	Other non-current financial liabilities £m	Total £m
In more than one year, but not more than two years	0.2	3.2	3.4
In more than two years, but not more than three years	–	0.9	0.9
In more than three years, but not more than four years	–	0.7	0.7
In more than four years, but not more than five years	–	0.6	0.6
In more than five years	–	0.3	0.3
<b>Total financial liabilities</b>	<b>0.2</b>	<b>5.7</b>	<b>5.9</b>

As at 31 March 2009	£m	£m	£m
In more than one year, but not more than two years	0.4	0.9	1.3
In more than two years, but not more than three years	–	0.3	0.3
In more than three years, but not more than four years	–	0.4	0.4
In more than four years, but not more than five years	–	0.5	0.5
In more than five years	–	7.9	7.9
<b>Total financial liabilities</b>	<b>0.4</b>	<b>10.0</b>	<b>10.4</b>

Other non-current financial liabilities principally relate to lease liabilities of £5.5m (2009: £6.6m) and property-related accruals of £nil (2009: £0.9m).

The Group is in compliance with the financial and other covenants within its committed bank credit facilities.

**Capital risk**

The Group's objectives when managing capital (defined as net cash plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while maintaining a strong credit rating and headroom and optimising return to shareholders through an appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it in light of changes to economic conditions and the strategic objectives of the Group.

**26. Employee costs**

Staff costs, including directors' emoluments, incurred during the year are as shown below. The directors' emoluments, which are separately disclosed in the Directors' Remuneration Report on pages 70 to 79, include gains arising on the exercise of share options and awards and which form part of these financial statements.

	Year to 31 March 2010 £m	Year to 31 March 2009 £m
Wages and salaries	190.0	170.1
Social security costs	27.1	23.8
Share based compensation (all awards and options settled in shares)	18.1	4.5
Other pension costs (note 18)	5.3	4.3
<b>Total</b>	<b>240.5</b>	<b>202.7</b>

**26. Employee costs (continued)**

The average number of full-time equivalent employees (including executive directors) during the year was as follows:

	Number of employees	
	Year to 31 March 2010	Year to 31 March 2009
EMEA	2,285	2,334
Spain	892	1,211
Americas	1,285	1,616
Asia Pacific	1,056	999
<b>Rest of the World</b>	<b>90</b>	<b>48</b>
<b>Total</b>	<b>5,608</b>	<b>6,208</b>

**Share options granted to directors and employees**

The share option and award schemes have been valued using the Black-Scholes option pricing model. The Senior Executive Restricted Share Plan and the Exceptional Performance Share Plan, both of which have market-based performance conditions attached, have been valued using the Black-Scholes option pricing model with a discount applied to this value, based on information obtained by running a Monte Carlo simulation model on the scheme.

Where applicable, equity swaps have been entered into to cover future employer's national insurance liability (or overseas equivalent) that may arise in respect of these schemes.

**Savings-Related Share Option Scheme**

In the financial year ended 31 March 2007, a Savings-Related Share Option Scheme (Sharesave) offering Burberry Group plc ordinary shares was introduced for employees.

On 30 June 2009, further options were granted under this scheme with a three-year and five-year vesting period offered to employees. The contract commencement date of the grant was 1 September 2009. These options are ordinarily exercisable from 1 September 2012 and 1 September 2014 for the three-year and five-year schemes respectively, with vesting dependent on continued employment, as well as a saving obligation over the vesting period. The exercise price for these options is calculated at a 20% discount to market price over the three dealing days preceding the invitation date. Three day averages are calculated by taking middle market quotations of a Burberry Group plc share from the London Stock Exchange.

The fair value of the options granted in the year has been calculated using a risk-free rate of 2.1%, expected volatility of 44.7% and an expected dividend yield of 2.7%. The fair value per option for the grant was determined as £2.02. The Burberry share price at the contract commencement date was £4.89.

Expected volatility was determined by calculating the historic annualised standard deviation of the market price of the shares over a period of time, prior to the grant, equivalent to the life of the option.

Movements in the number of Sharesave share options in Burberry Group plc shares outstanding and their weighted average exercise prices are as follows:

	Weighted average exercise price	Number of shares under option as at 31 March 2010	Weighted average exercise price	Number of shares under option as at 31 March 2009
Outstanding at 1 April	401.8p	1,007,438	409.1p	989,717
Granted during the year	321.0p	410,974	399.0p	273,308
Lapsed during the year	395.0p	(153,315)	427.6p	(253,219)
Withdrawn during the year	411.1p	(91,692)	–	–
Exercised during the year	350.0p	(372,468)	350.5p	(2,368)
<b>Outstanding at 31 March</b>	<b>383.5p</b>	<b>800,937</b>	<b>401.8p</b>	<b>1,007,438</b>
<b>Exercisable at 31 March</b>	<b>350.5p</b>	<b>130</b>	<b>–</b>	<b>–</b>



**26. Employee costs (continued)**

Sharesave options in Burberry Group plc shares outstanding at the end of the year have the following expiry dates and exercise prices:

Option term	Exercise price	Number of shares under option as at 31 March 2010	Number of shares under option as at 31 March 2009
23 June 2006 – 28 February 2010	350.5p	130	438,267
30 March 2007 – 30 September 2010	384.5p	28,289	84,060
24 August 2007 – 28 February 2011	505.0p	108,077	152,171
28 September 2007 – 31 March 2011	505.0p	68,872	86,911
26 June 2008 – 28 February 2012	399.0p	200,796	246,029
30 June 2009 – 28 February 2013	321.0p	332,678	–
30 June 2009 – 28 February 2015	321.0p	62,095	–
<b>Total</b>		<b>800,937</b>	<b>1,007,438</b>

**Burberry Senior Executive Restricted Share Plan 2004 (the RSP)**

In June and November 2009, further awards of 5,459,100 and 16,795 ordinary shares respectively were made to executive directors and management under the RSP (2009: 1,522,064).

In accordance with the rules of the RSP the awards vest in three stages: 50% are exercisable after three years, 25% are exercisable after four years and 25% are exercisable after five years, subject to the achievement of two performance conditions. Vesting of RSP shares is based 50% on Burberry's three year Total Shareholder Return (TSR) relative to peers and 50% on three year growth in profit before taxation (PBT).

Awards vest in full only if Burberry achieves at least upper quartile TSR compared to its global peers and at least 10% per annum PBT growth. A proportion of an award (25%) may vest if TSR performance exceeds the median of the peer group or if PBT growth exceeds 3% per annum over three years. The vesting of these awards is also dependent on continued employment over the vesting period. The exercise price of these share options is £nil.

Obligations under this plan will be met by the issue of ordinary shares of the Company.

Movements in the number of share awards outstanding are as follows:

	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
Outstanding at 1 April	6,478,852	6,747,078
Granted during the year	5,475,895	1,522,064
Lapsed during the year	(1,377,582)	(1,315,138)
Exercised during the year	(1,265,689)	(475,152)
<b>Outstanding at 31 March</b>	<b>9,311,476</b>	<b>6,478,852</b>
<b>Exercisable at 31 March</b>	<b>146,813</b>	<b>277,738</b>

The weighted average share price at the respective exercise dates in the year was £5.73.

**26. Employee costs (continued)**

Share awards outstanding at the end of the year have the following terms:

Term of the award	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
2 August 2004 – 1 August 2014	2,021	330,860
21 July 2005 – 20 July 2015	87,557	350,301
31 January 2006 – 30 January 2016	95,339	254,237
10 August 2006 – 9 August 2016	268,666	1,820,819
1 September 2006 – 31 August 2016	10,000	20,000
27 November 2006 – 26 November 2016	13,773	48,709
11 June 2007 – 10 June 2017	1,782,458	1,868,126
21 November 2007 – 20 November 2017	298,541	298,541
25 June 2008 – 24 June 2018	1,357,402	1,487,259
1 June 2009 – 31 May 2019	5,376,924	–
8 June 2009 – 7 June 2019	1,500	–
30 June 2009 – 29 June 2019	5,500	–
20 November 2009 – 19 November 2019	11,795	–
<b>Total</b>	<b>9,311,476</b>	<b>6,478,852</b>

For the following grants made during the year ended 31 March 2010, the fair value for the restricted shares with the PBT performance condition was determined by applying the Black-Scholes option pricing model. A discount was applied to the restricted shares with the TSR performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined as shown below:

Fair value for the restricted shares	1 June 2009	8 June 2009	30 June 2009	20 November 2009
PBT performance condition	£3.81	£4.01	£4.08	£5.69
TSR performance condition	£2.06	£2.17	£2.21	£3.08

The key factors used in determining the fair value of the awards were as follows:

	1 June 2009	8 June 2009	30 June 2009	20 November 2009
Weighted average share price at grant date	£3.81	£4.01	£4.08	£5.69
Exercise price	£nil	£nil	£nil	£nil
Life of award	Equivalent to vesting period	Equivalent to vesting period	Equivalent to vesting period	Equivalent to vesting period
Expected volatility	46.8%	46.9%	47.1%	47.8%
Risk free interest rate	3.94%	3.97%	3.76%	3.91%

Expected volatility was determined by calculating the historic annualised standard deviation of the market price of the shares over a period of time, prior to the grant, equivalent to the life of the option.

**Burberry Restricted Share Reinvestment Plan**

On 21 July 2005 awards in respect of a total of 782,500 ordinary shares were made to senior management under the Restricted Share Reinvestment Plan.

The awards vested in two stages: 50% were exercisable after three years and the remaining 50% became exercisable after four years. The vesting of these share awards was dependent on the employee continuing to hold the original IPO RSP shares which were awarded and which vested on 11 July 2005. The vesting of these share awards was also dependent on continued employment over the vesting period. The exercise price of these share awards was £nil.

**26. Employee costs (continued)**

Movements in the number of share awards outstanding are as follows:

	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
Outstanding at 1 April	278,750	567,500
Exercised during the year	(278,750)	(288,750)
<b>Outstanding at 31 March</b>	–	278,750
<b>Exercisable at 31 March</b>	–	–

The weighted average share price at the respective exercise dates in the year was £4.94.

Term for the outstanding amount of shares is:

Term of the award	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
21 July 2005 – 21 July 2015	–	278,750
<b>Total</b>	–	278,750

**The Burberry Senior Executive IPO Share Option Scheme (the IPO Option Scheme)**

On 11 July 2002, options in respect of a total of 5,955,198 ordinary shares were made to executive directors and senior management under the IPO Option Scheme. Participants were granted options with an exercise price equal to the price on flotation, £2.30 per ordinary share.

The options vested in three stages: 33% were exercisable after one year, 33% were exercisable after two years and the remaining 33% were exercisable after three years. Obligations under this scheme will be met by the issue of ordinary shares of the Company.

Movements in the number of share options outstanding and their weighted average exercise price are as follows:

	Weighted average exercise price	Number of shares under option as at 31 March 2010	Weighted average exercise price	Number of shares under option as at 31 March 2009
Outstanding at 1 April	230.0p	392,086	230.0p	392,086
Exercised during the year	230.0p	(267,086)	–	–
<b>Outstanding at 31 March</b>	230.0p	125,000	230.0p	392,086
<b>Exercisable at 31 March</b>	230.0p	125,000	230.0p	392,086

Share options outstanding at the end of the year have the following terms and exercise prices:

Option term	Exercise price	Number of shares under option as at 31 March 2010	Number of shares under option as at 31 March 2009
11 July 2002 – 11 July 2012	230.0p	125,000	392,086
<b>Total</b>	230.0p	125,000	392,086

**26. Employee costs (continued)**

**The Burberry Group plc Executive Share Option Scheme 2002**

During previous financial years, options were granted to executive directors and senior management in respect of ordinary shares in the Company under the Executive Share Option Scheme.

The options vested in three stages: 33% were exercisable after one year, 33% were exercisable after two years and the remaining 33% were exercisable after three years. The vesting of these share options was dependent on continued employment over the vesting period.

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

	Weighted average exercise price	Number of shares under option as at 31 March 2010	Weighted average exercise price	Number of shares under option as at 31 March 2009
Outstanding at 1 April	325.2p	837,762	321.1p	891,928
Exercised during the year	331.7p	(611,472)	258.0p	(54,166)
<b>Outstanding at 31 March</b>	<b>307.6p</b>	<b>226,290</b>	<b>325.2p</b>	<b>837,762</b>
<b>Exercisable at 31 March</b>	<b>307.6p</b>	<b>226,290</b>	<b>325.2p</b>	<b>837,762</b>

The weighted average share price at the respective exercise dates in the year was £5.82.

Share options outstanding at the end of the year have the following terms and exercise prices:

Option term	Exercise price	Number of shares under option as at 31 March 2010	Number of shares under option as at 31 March 2009
13 June 2003 – 12 June 2013	258.0p	132,752	368,583
2 August 2004 – 1 August 2014	378.0p	93,538	469,179
<b>Total</b>		<b>226,290</b>	<b>837,762</b>

**All Employee Share Plan**

In previous financial years all employees were offered awards of ordinary shares in the Company at a nil exercise price under an All Employee Share Plan. All awards vested after three years and the vesting of these share awards was dependent on continued employment over the vesting period.

These ordinary shares are held in two trusts, being the Burberry Group Share Incentive Plan Trust and the Burberry Group plc ESOP Trust.

Movements in the number of share awards outstanding are as follows:

	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
Outstanding at 1 April	141,830	360,200
Lapsed during the year	–	(27,560)
Exercised during the year	(60,727)	(190,810)
<b>Outstanding at 31 March</b>	<b>81,103</b>	<b>141,830</b>
<b>Exercisable at 31 March</b>	<b>81,103</b>	<b>141,830</b>



**26. Employee costs (continued)**

Share awards outstanding at the end of the year have the following terms:

Term of the award	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
12 July 2002 – 18 July 2082 <sup>(1)</sup>	13,850	20,650
30 August 2003 – 18 July 2082 <sup>(1)</sup>	15,900	26,300
20 August 2004 – 18 July 2082 <sup>(1)</sup>	24,650	52,800
1 September 2005 – 18 July 2082 <sup>(1)</sup>	26,703	42,080
<b>Total</b>	<b>81,103</b>	<b>141,830</b>

(1) No date has been specified when awards lapse. The cessation date of the trust in which the awards are held is 18 July 2082.

**The Burberry Co-Investment Plan**

In previous financial years executive directors and certain senior management were able to defer receipt of all or part of their annual bonus and invest it in ordinary shares in the Company with up to a 2:1 match based on individual and Group performance during the year.

The matching share awards do not vest for three years and are forfeited if the executive leaves due to resignation within that period.

The exercise price of these share awards is £nil. No awards were made during the year to 31 March 2010 (2009: 1,726,131).

Movements in the number of share awards outstanding are as follows:

	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
Outstanding at 1 April	3,215,009	1,729,589
Granted during the year	–	1,726,131
Lapsed during the year	(4,343)	(26,867)
Exercised during the year	(1,336,640)	(213,844)
<b>Outstanding at 31 March</b>	<b>1,874,026</b>	<b>3,215,009</b>
<b>Exercisable at 31 March</b>	<b>–</b>	<b>339,721</b>

The weighted average share price at the respective exercise dates in the year was £6.25.

Share awards outstanding at the end of the year have the following terms:

Term of the award	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
29 July 2004 – 28 July 2009	–	39,173
21 July 2005 – 20 July 2010	–	300,548
20 June 2007 – 19 June 2012	147,895	1,149,157
3 June 2008 – 2 June 2013	1,726,131	1,726,131
<b>Total</b>	<b>1,874,026</b>	<b>3,215,009</b>

**26. Employee costs (continued)**

**The Burberry Exceptional Performance Share Plan**

In 2007, awards in respect of a total of 4,210,000 ordinary shares were made to executive directors and senior management under the Exceptional Performance Share Plan which was introduced as a one-off long-term incentive plan.

The awards vest in two stages: 50% are exercisable after three years and 50% are exercisable after four years. The vesting of these share awards is dependent on two performance conditions. The award is based 50% on relative Total Shareholder Return (TSR) and 50% on growth in profits over the three and four year performance periods to 2010 and 2011. No awards vest unless Burberry's TSR exceeds the median of the comparator group or growth in profit before tax and amortisation of goodwill per share (PBT) exceeds 50% over the four year performance period to 2010 or 75% over the five year performance period to 2011. The vesting of these share awards is also dependent on continued employment over the vesting period. The exercise price of these share awards is £nil.

Movements in the number of share awards outstanding are as follows:

	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
Outstanding at 1 April	3,935,000	4,210,000
Lapsed during the year	–	(275,000)
<b>Outstanding at 31 March</b>	<b>3,935,000</b>	<b>3,935,000</b>
<b>Exercisable at 31 March</b>	<b>–</b>	<b>–</b>

Share awards outstanding at the end of the year have the following terms:

<b>Term of the award</b>	Number of awards as at 31 March 2010	Number of awards as at 31 March 2009
26 July 2007 – 25 July 2012	3,850,000	3,850,000
21 November 2007 – 25 July 2012	85,000	85,000
<b>Total</b>	<b>3,935,000</b>	<b>3,935,000</b>

**27. 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:	
Cash consideration	2.0
Direct costs relating to acquisition	–
Cash outflow on acquisition	2.0

**28. 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
<b>Total</b>	<b>12.9</b>	<b>6.9</b>

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%.

**29. Principal subsidiaries**

Company	Country of incorporation	Nature of business
<b>EMEA</b>		
Burberry Limited	UK	Luxury goods retailer, wholesaler and licensor
Burberry Italy Retail Limited	UK	Luxury goods retailer
The Scotch House Limited <sup>(1)</sup>	UK	Luxury goods brand and licensor
Woodrow-Universal Limited <sup>(1)</sup>	UK	Textile manufacturer
Burberry France SASU	France	Luxury goods retailer and wholesaler
Burberry (Suisse) SA <sup>(1)</sup>	Switzerland	Luxury goods retailer
Burberry Italy SRL <sup>(1)</sup>	Italy	Luxury goods wholesaler
Burberry (Deutschland) GmbH	Germany	Luxury goods retailer and wholesaler
Burberry (Austria) GmbH	Austria	Luxury goods retailer
Burberry Antwerp N.V.	Belgium	Luxury goods retailer
Burberry Czech Rep s.r.o.	Czech Republic	Luxury goods retailer
Burberry Hungary kft.	Hungary	Luxury goods retailer
Burberry Ireland Limited	Ireland	Luxury goods retailer
Burberry Netherlands BV	Netherlands	Luxury goods retailer
Burberry Middle East LLC (49%)	United Arab Emirates	Luxury goods retailer and wholesaler
Burberry India Private Limited (51%)	India	Luxury goods retailer and wholesaler
<b>Spain</b>		
Burberry (Spain) S.A.	Spain	Luxury goods retailer and wholesaler
Burberry (Spain) Retail SL	Spain	Luxury goods retailer
<b>Americas</b>		
Burberry Limited	USA	Luxury goods retailer
Burberry (Wholesale) Limited	USA	Luxury goods wholesaler
Burberry Canada Inc	Canada	Luxury goods retailer
<b>Asia Pacific</b>		
Burberry Asia Limited	Hong Kong	Luxury goods retailer and wholesaler
Burberry (Singapore) Distribution Company Pte Ltd	Singapore	Luxury goods retailer and wholesaler
Burberry Pacific Pty Ltd	Australia	Luxury goods retailer and wholesaler
Burberry Korea Limited	Republic of Korea	Luxury goods retailer and wholesaler
Burberry (Taiwan) Co Ltd	Taiwan	Luxury goods retailer
Burberry (Malaysia) Sdn. Bhd	Malaysia	Luxury goods retailer
Burberry Japan K.K.	Japan	Luxury goods retailer, wholesaler and licensor
Burberry International K.K. (51%)	Japan	Luxury goods retailer
Burberry Guam, Inc	Guam	Luxury goods retailer

(1) Held directly by Burberry Group plc.

In accordance with Section 410(2)(a) of the Companies Act 2006, the above information is provided solely in relation to principal subsidiaries.

As at 31 March 2010, all principal subsidiary undertakings are wholly owned except where indicated differently above and operate in the country in which they are incorporated with the exception of Burberry Italy Retail Limited, which operates principally in Italy. All the subsidiary undertakings have been consolidated as at 31 March 2010. Burberry has a 59% share in profits of Burberry Middle East LLC and has the power to appoint the majority of directors. Non-operating intermediate holding and financing companies are excluded from the list above.

Details of all Burberry subsidiaries will be annexed to the next Annual Return of Burberry Group plc to be filed at Companies House.



## FIVE YEAR SUMMARY

<b>Year to 31 March</b>					
<b>Revenue by channel</b>	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
Retail	318.5	410.1	484.4	629.7	<b>748.8</b>
Wholesale	343.3	354.1	426.2	489.2	<b>433.6</b>
Licensing	81.1	86.1	84.8	82.6	<b>97.5</b>
<b>Total</b>	<b>742.9</b>	<b>850.3</b>	<b>995.4</b>	<b>1,201.5</b>	<b>1,279.9</b>
<b>Revenue by product</b>	£m	£m	£m	£m	£m
Womenswear	249.3	305.5	345.2	412.8	<b>415.5</b>
Menswear	206.2	227.0	247.8	298.4	<b>288.5</b>
Non-apparel	189.2	211.2	289.7	366.3	<b>419.6</b>
Childrenswear	17.1	20.5	27.9	41.4	<b>58.8</b>
Retail/Wholesale	661.8	764.2	910.6	1,118.9	<b>1,182.4</b>
Licensing	81.1	86.1	84.8	82.6	<b>97.5</b>
<b>Total</b>	<b>742.9</b>	<b>850.3</b>	<b>995.4</b>	<b>1,201.5</b>	<b>1,279.9</b>
<b>Revenue by destination</b>	£m	£m	£m	£m	£m
Europe	191.5	229.8	291.8	379.8	<b>408.1</b>
Spain	134.1	151.8	161.6	144.5	<b>107.1</b>
Americas <sup>(1)</sup>	177.9	196.5	234.8	308.9	<b>324.8</b>
Asia Pacific	144.6	167.5	189.1	240.0	<b>282.7</b>
Rest of World <sup>(1)</sup>	13.7	18.6	33.3	45.7	<b>59.7</b>
Retail/Wholesale	661.8	764.2	910.6	1,118.9	<b>1,182.4</b>
Licensing	81.1	86.1	84.8	82.6	<b>97.5</b>
<b>Total</b>	<b>742.9</b>	<b>850.3</b>	<b>995.4</b>	<b>1,201.5</b>	<b>1,279.9</b>
<b>Profit by channel</b>	£m	£m	£m	£m	£m
Retail/Wholesale	96.2	111.7	135.6	110.1	<b>137.7</b>
Licensing	69.4	73.4	70.6	70.7	<b>82.2</b>
<b>Adjusted operating profit<sup>(2)</sup></b>	<b>165.6</b>	<b>185.1</b>	<b>206.2</b>	<b>180.8</b>	<b>219.9</b>
Net interest income/(expense)	2.5	(0.7)	(6.0)	(6.2)	<b>(5.1)</b>
Restructuring costs	–	–	–	(54.9)	<b>(48.8)</b>
Goodwill impairment	–	–	–	(116.2)	–
Store impairments and onerous lease provisions	–	–	–	(13.4)	–
Negative goodwill	–	–	–	1.7	–
Relocation of headquarters	–	–	15.1	(7.9)	–
Project Atlas costs	(11.1)	(21.6)	(19.6)	–	–
Treorchy closure costs	–	(6.5)	–	–	–
<b>Profit/(loss) on ordinary activities before taxation</b>	<b>157.0</b>	<b>156.3</b>	<b>195.7</b>	<b>(16.1)</b>	<b>166.0</b>
Tax on profit/(loss) on ordinary activities	(50.6)	(46.1)	(60.5)	11.0	<b>(83.8)</b>
<b>Profit/(loss) on ordinary activities after taxation</b>	<b>106.4</b>	<b>110.2</b>	<b>135.2</b>	<b>(5.1)</b>	<b>82.2</b>
<b>Margin analysis</b>	%	%	%	%	%
Gross margin as percentage of revenue	60.0	61.3	62.1	55.4	<b>62.8</b>
Retail/Wholesale adjusted operating profit <sup>(2)</sup> as a percentage of Retail/Wholesale revenue	14.5	14.6	14.9	9.8	<b>11.6</b>
Licensing adjusted operating profit <sup>(2)</sup> as a percentage of Licensing revenue	85.6	85.2	83.3	85.6	<b>84.3</b>
Total adjusted operating profit <sup>(2)</sup> as a percentage of revenue	22.3	21.8	20.7	15.0	<b>17.2</b>

(1) Revenue amounts reported for 2009 have been restated on the adoption of IFRS 8 (note 3).

(2) Adjusted for exceptional items.

## FIVE YEAR SUMMARY CONTINUED

Year to 31 March	2006 pence per share	2007 pence per share	2008 pence per share	2009 pence per share	2010 pence per share
<b>Earnings and dividends</b>					
Earnings per share – basic	22.9	25.2	31.3	(1.4)	<b>18.8</b>
Adjusted earnings per share – basic <sup>(1)</sup>	24.7	29.7	32.4	30.6	<b>35.9</b>
Earnings per share – diluted	22.3	24.7	30.5	(1.4)	<b>18.4</b>
Adjusted earnings per share – diluted <sup>(1)</sup>	24.1	29.1	31.6	30.2	<b>35.1</b>
Dividend per share (on a paid basis)	7.0	8.4	11.0	12.0	<b>12.2</b>
Diluted weighted average number of ordinary shares in issue during the year (millions)	477.6	446.1	442.8	438.1	<b>441.9</b>
Dividend cover (on a paid basis) <sup>(2)</sup>	3.4	3.5	2.9	2.5	<b>2.9</b>

As at 31 March	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
<b>Balance sheet</b>					
Fixed assets and other intangible assets	181.2	179.5	197.8	283.0	<b>285.8</b>
Working capital (excluding cash and borrowings)	121.7	136.1	260.0	221.2	<b>61.3</b>
Other long-term liabilities	(19.2)	(12.2)	(13.7)	(24.4)	<b>(27.0)</b>
<b>Net operating assets</b>	<b>283.7</b>	<b>303.4</b>	<b>444.1</b>	<b>479.8</b>	<b>320.1</b>
Goodwill	121.2	116.9	130.1	33.1	<b>34.9</b>
Deferred consideration for acquisitions	(11.5)	(10.0)	–	–	–
Cash at bank, net of overdraft and borrowings	12.5	(2.8)	(64.2)	7.6	<b>262.0</b>
Taxation (including deferred taxation)	(19.3)	(10.6)	(14.7)	23.4	<b>(13.5)</b>
<b>Net assets</b>	<b>386.6</b>	<b>396.9</b>	<b>495.3</b>	<b>543.9</b>	<b>603.5</b>

Year to 31 March	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m
<b>Cash flow</b>					
Adjusted operating profit <sup>(1)</sup>	165.6	185.1	206.2	180.8	<b>219.9</b>
Restructuring costs	–	–	–	(54.9)	<b>(48.8)</b>
Goodwill impairment	–	–	–	(116.2)	–
Store impairments and onerous lease provisions	–	–	–	(13.4)	–
Negative goodwill	–	–	–	1.7	–
Relocation of headquarters	–	–	15.1	(7.9)	–
Project Atlas costs	(11.1)	(21.6)	(19.6)	–	–
Treorchy closure costs	–	(6.5)	–	–	–
Operating profit/(loss)	154.5	157.0	201.7	(9.9)	<b>171.1</b>
Depreciation, impairment, amortisation and negative goodwill	24.9	26.7	32.2	174.7	<b>60.0</b>
Loss/(profit) on disposal of fixed assets and similar non-cash charges	(1.6)	1.1	(19.1)	2.0	<b>4.2</b>
Fair value (gains)/losses on derivative instruments	–	–	(0.5)	10.7	<b>(11.9)</b>
Charges in respect of employee share incentive schemes	7.4	10.8	14.3	4.5	<b>18.1</b>
(Increase)/decrease in inventories	(17.8)	(33.4)	(122.6)	55.7	<b>87.4</b>
(Increase)/decrease in receivables	2.2	(33.8)	(29.1)	2.1	<b>56.2</b>
Increase/(decrease) in payables	(21.2)	32.8	28.8	2.2	<b>40.5</b>
Net cash inflow from operations before capital expenditure	148.4	161.2	105.7	242.0	<b>425.6</b>
Purchase of tangible and intangible fixed assets	(30.7)	(34.3)	(48.5)	(89.9)	<b>(69.9)</b>
Proceeds from sale of property, plant and equipment	3.6	0.1	28.3	0.1	–
<b>Net cash inflow from operations adjusted for capital expenditure</b>	<b>121.3</b>	<b>127.0</b>	<b>85.5</b>	<b>152.2</b>	<b>355.7</b>

(1) Adjusted for exceptional items.

(2) Based on adjusted diluted earnings per share.

# **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BURBERRY GROUP PLC**

We have audited the parent Company financial statements of Burberry Group plc for the year ended 31 March 2010 which comprise the parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## **Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 80, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## **Opinion on financial statements**

In our opinion the parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 March 2010;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

## **Other matter**

We have reported separately on the Group financial statements of Burberry Group plc for the year ended 31 March 2010.

## **Kim Green (Senior Statutory Auditor)**

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors  
London, 25 May 2010

## COMPANY BALANCE SHEET

	Note	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Fixed assets</b>			
<b>Derivative assets</b>		<b>1.7</b>	–
Investments in Group companies	C	<b>1,975.0</b>	1,613.6
		<b>1,976.7</b>	1,613.6
<b>Current assets</b>			
Debtors receivable within one year	D	<b>1,007.3</b>	743.5
Debtors receivable after one year	D	<b>0.8</b>	1.5
Derivative assets		<b>0.8</b>	–
Cash and cash equivalents	E	<b>3.1</b>	0.4
		<b>1,012.0</b>	745.4
<b>Current liabilities</b>			
Creditors payable within one year	F	<b>(2,246.5)</b>	(1,731.8)
Derivative liabilities		–	(1.6)
<b>Net current liabilities</b>		<b>(1,234.5)</b>	(988.0)
<b>Total assets less current liabilities</b>		<b>742.2</b>	625.6
<b>Non current liabilities</b>			
Creditors payable after one year	F	<b>(0.2)</b>	–
<b>Net assets</b>		<b>742.0</b>	625.6
<b>EQUITY</b>			
Share capital	G	<b>0.2</b>	0.2
Share premium	G	<b>186.1</b>	175.9
Capital reserve	G	<b>0.9</b>	0.9
Hedging reserve	G	<b>4.1</b>	3.9
Profit and loss account	G	<b>550.7</b>	444.7
<b>Total equity</b>	G	<b>742.0</b>	625.6

The financial statements on pages 128 to 133 were approved by the Board on 25 May 2010 and signed on its behalf by:

**John Peace**  
Chairman

**Stacey Cartwright**  
Executive Vice President, Chief Financial Officer

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### A. Basis of preparation

Burberry Group plc ('the Company') is the parent Company of the Burberry Group. Burberry Group plc is listed on the London Stock Exchange and its principal business is investment.

Burberry Group is a global luxury goods manufacturer, wholesaler and retailer. Retail/Wholesale revenues are generated by the sale of luxury goods through Burberry mainline stores, concessions and outlets as well as Burberry franchisees and prestige department stores globally. Licensing revenues are generated through the receipt of royalties from Burberry's licensees in Japan and global licensees of fragrances, eyewear, timepieces and European childrenswear. All of the companies, which comprise Burberry Group, are owned by the Company either directly or indirectly.

These financial statements have been prepared on a going concern basis under the historical cost convention, with the exception of financial instruments which are included in the financial statements at fair value, and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

### B. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Share schemes

Employees in Burberry Group (including executive directors) receive certain share incentives, relating to Burberry Group plc shares.

The cost of the share incentives is measured with reference to the fair value of the equity instruments awarded at the date of grant. The Black-Scholes option pricing model is used to determine the fair value of the award made. The impact of performance conditions is not considered in determining the fair value on the date of grant, except for conditions linked to the price of Burberry Group plc shares i.e. market conditions. Vesting conditions which relate to non-market conditions are allowed for in the assumptions about the number of options expected to vest. The estimate of the number of options expected to vest is revised at each balance sheet date.

The cost of the share based incentives are recharged and recognised as an expense over the vesting period of the awards by the entity which employs the relevant participants. A corresponding increase in equity is recognised.

The proceeds received from the exercise of the equity instruments awarded, net of any directly attributable transaction costs, are credited to share capital and share premium.

Full disclosures are presented in note 26 of the consolidated financial statements of the Burberry Group.

#### Dividend distribution

Dividend distributions to Burberry Group plc's shareholders are recognised as a liability in the period in which the dividends are approved by the shareholders in the case of final dividends or when they are paid in respect of interim dividends.

#### Investments in Group companies

Investments in Group companies are stated at cost, less any provisions to reflect impairment in value.

Loans to Group companies are considered to be part of the net investment in the subsidiary and any foreign exchange gain or losses made on these loans are recognised in the profit and loss account.

#### Impairment of assets

Assets that have an indefinite useful economic life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (income-generating units).

#### Deferred tax

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the realisation of economic benefits in the future is uncertain. Deferred tax assets and liabilities are not discounted.

#### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



**B. Accounting policies (continued)**

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

**Financial instruments**

Financial instruments are reported and measured in accordance with FRS 25 and FRS 26 respectively. The Company used the exemption not to present FRS 25 disclosures in the notes to the entity financial statements as full equivalent disclosures are presented within the consolidated financial statements.

**Foreign currency transactions**

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are held at the year end, are translated into Sterling at the exchange rate ruling at the balance sheet date. Exchange differences on monetary items are recognised in the profit and loss account in the period in which they arise.

**Cash flow statement**

The Company is exempt from the requirement to prepare a cash flow statement under FRS 1 (revised 1996) 'Cash flow statements', as it is a part of Burberry Group and the cash flow for the Group is included in the consolidated financial statements of Burberry Group.

**Related party transactions**

FRS 8, 'Related Party Disclosures' requires the disclosure of the details of material transactions and balances between the reporting entity and related parties. The Company has taken advantage of the exemption under the terms of FRS 8, not to disclose details of transactions with entities that are part of Burberry Group.

**C. Investments in Group companies**

Cost	£m
<b>As at 1 April 2008</b>	1,197.4
Additions	557.2
Impairment	(141.0)
<b>As at 31 March 2009</b>	1,613.6
Additions	496.8
Impairment reversal	139.2
Disposals	(274.6)
<b>As at 31 March 2010</b>	<b>1,975.0</b>

The principal subsidiaries of the Burberry Group are listed in note 29 of the Group financial statements.

During the year, previously recognised impairments on certain subsidiary companies totalling £139.2m were reversed through the profit and loss account in accordance with Financial Reporting Standard 11 'Impairment of Fixed Assets and Goodwill'.

Burberry Group sold its investment in a subsidiary company at its pre-impairment book value of £272.0m. Accordingly, the impairment loss of £137.5m previously recognised in respect of this investment was reversed immediately prior to disposal.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

**D. Debtors**

	As at 31 March 2010 £m	As at 31 March 2009 £m
Amounts receivable from Group companies	1,011.5	742.7
Provision in respect of amounts receivable from Group companies	(4.9)	–
Net amounts receivable from Group companies	1,006.6	742.7
Prepayments and other debtors	0.7	0.8
<b>Total debtors receivable within one year</b>	<b>1,007.3</b>	<b>743.5</b>
Prepayments	0.8	1.5
<b>Total debtors receivable after one year</b>	<b>0.8</b>	<b>1.5</b>
<b>Total debtors</b>	<b>1,008.1</b>	<b>745.0</b>

Included in amounts receivable from Group companies are loans of £88.3m (2009: £93.1m) which are interest bearing. The interest rate earned is based on relevant national LIBOR equivalents.

The maturity of debtors due after one year is as follows:

	As at 31 March 2010 £m	As at 31 March 2009 £m
Between one and two years	0.6	0.7
Between two and three years	0.2	0.6
Between three and four years	–	0.2
<b>Total debtors</b>	<b>0.8</b>	<b>1.5</b>

**E. Cash and cash equivalents**

	As at 31 March 2010 £m	As at 31 March 2009 £m
Cash and cash equivalents	3.1	0.4

Cash at bank and in hand earns interest based on the relevant LIBOR equivalents.

**F. Creditors**

	As at 31 March 2010 £m	As at 31 March 2009 £m
Unsecured:		
Trading balances payable to Group companies	114.7	65.4
Loan balances payable to Group companies	2,128.9	1,664.8
Accruals and deferred income	2.9	1.6
<b>Total creditors payable within one year</b>	<b>2,246.5</b>	<b>1,731.8</b>
Accruals	0.2	–
<b>Total creditors payable after one year</b>	<b>0.2</b>	<b>–</b>
<b>Total creditors</b>	<b>2,246.7</b>	<b>1,731.8</b>

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

**G. Equity**

	As at 31 March 2010 £m	As at 31 March 2009 £m
<b>Authorised share capital</b>		
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>

Allotted, called up and fully paid share capital	Number	£m
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	–
<b>As at 31 March 2010</b>	<b>435,024,782</b>	<b>0.2</b>

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

**Reconciliation of movement in Company shareholders' funds**

	Share capital £m	Share premium £m	Capital reserve £m	Profit and loss account £m	Hedging reserve £m	Total equity £m
<b>As at 1 April 2008</b>	0.2	174.3	0.9	470.0	(0.1)	645.3
Retained profit for the year before dividends paid	–	–	–	27.1	–	27.1
Dividends paid	–	–	–	(51.7)	–	(51.7)
Total recognised loss for the year	–	–	–	(24.6)	–	(24.6)
Employee share option scheme						
– value of share options granted	–	–	–	4.5	–	4.5
– exercise of share options	–	1.6	–	–	–	1.6
Cash flow hedge loss deferred in equity	–	–	–	–	4.0	4.0
Purchase of shares by ESOP trusts	–	–	–	(5.4)	–	(5.4)
Sale of shares by ESOP trusts	–	–	–	0.2	–	0.2
<b>As at 31 March 2009</b>	0.2	175.9	0.9	444.7	3.9	625.6
Retained profit for the year before dividends paid	–	–	–	146.2	–	146.2
Dividends paid	–	–	–	(52.5)	–	(52.5)
Total recognised gain for the year	–	–	–	93.7	–	93.7
Employee share option scheme						
– value of share options granted	–	–	–	18.1	–	18.1
– exercise of share options	–	10.2	–	–	–	10.2
Cash flow hedge gain deferred in equity	–	–	–	–	0.2	0.2
Purchase of shares by ESOP trusts	–	–	–	(7.5)	–	(7.5)
Sale of shares by ESOP trusts	–	–	–	2.1	–	2.1
Treasury shares	–	–	–	(0.4)	–	(0.4)
<b>As at 31 March 2010</b>	<b>0.2</b>	<b>186.1</b>	<b>0.9</b>	<b>550.7</b>	<b>4.1</b>	<b>742.0</b>

Profit on ordinary activities, but before dividends payable, was £146.2m (2009: profit of £27.1m). As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. Dividend disclosures are provided in note 9 of the Group accounts. Audit fee disclosure is provided in note 5 and is borne by a subsidiary.

**G. Equity (continued)**

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 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).

The capital reserve consists of non-distributable reserves and the capital redemption reserve arising on the purchase of own shares.

**H. Financial guarantees**

Burberry Group plc, together with Burberry Limited, Burberry Treasury Limited, Burberry Spain SA, Burberry Asia Limited, Burberry (Wholesale) Limited (US) and Burberry Limited (US) make up the Guarantor Group for a £200m multi-currency revolving facility agreement which commenced 16 March 2009 and matures 30 June 2012. The facility was co-ordinated by Lloyds Bank plc (Co-ordinator and Agent) and the mandated lead arrangers were Lloyds TSB Bank plc and Societe General S.A. both of which had a £40m commitment. The remaining commitment was provided by Royal Bank of Scotland plc, Abbey National Treasury Services plc, Unicredit SpA and Caixa D'Estalvis I Pensions De Barcelona, each with a £30m commitment. Interest is currently charged on this loan at LIBOR plus 2.00% per annum.

The same Guarantor Group supports the £60m multi-currency revolving credit facility provided by HSBC Bank plc, £30m, and Lloyds TSB Bank plc, £30m, which commenced on 13 June 2008 and matures on 13 June 2011. 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 fair value of the financial guarantee as at 31 March 2010 is £nil (2009: £nil).

A potential liability may arise in the future if one of the Group members defaults on the loan facility. Each guarantor, including Burberry Group plc would be liable to cover the amounts outstanding, including principal and interest elements.

**I. Employee costs**

The Company had no employees during the year to 31 March 2010 (2009: nil).

## SHAREHOLDER INFORMATION

### Shareholder enquiries

Enquiries relating to shareholdings, such as the transfer of shares, change of name or address, lost share certificates or dividend cheques, should be referred to the Company's Registrar, Equiniti, using the details below:

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Tel: 0871 384 2839  
Tel: +44 121 415 7047 (from outside the UK)

### Company website

This Annual Report and other information about Burberry, including share price information and details of results announcements, are available on the Group's website at [www.burberryplc.com](http://www.burberryplc.com).

### Electronic communication

Shareholders may at any time choose to receive all shareholder documentation in electronic form via the internet, rather than in paper format. Shareholders who decide to register for this option will receive an email each time a shareholder document is published on the internet. Shareholders who wish to receive documentation in electronic form should register online at [www.shareview.co.uk](http://www.shareview.co.uk).

Equiniti offers a range of shareholder information and services online at [www.shareview.co.uk](http://www.shareview.co.uk). A textphone facility for those with hearing difficulties is available by calling: 0871 384 2266 (or +44 121 415 7028 from outside the UK).

### Duplicate accounts

Shareholders who have more than one account due to inconsistency in account details may avoid duplicate mailings by contacting Equiniti and requesting the amalgamation of their share accounts.

### American Depositary Receipts (ADRs)

Burberry established a sponsored Level 1 American Depositary Receipt (ADR) program to enable US investors to purchase ADRs in US Dollars. Each ADR represents two Burberry ordinary shares.

For queries relating to ADRs in Burberry, please use the following contact details:

Deutsche Bank Trust Company Americas  
c/o American Stock Transfer & Trust Company  
Peck Slip Station  
PO Box 2050  
New York, NY 10272-2050

Email enquiries  
[DB@amstock.com](mailto:DB@amstock.com)  
Tel: toll free within the US: +1 800 301 3517  
Tel: International: +1 (718) 921 8137

### Financial calendar

First quarter trading update	13 July 2010
Annual General Meeting	15 July 2010
First half trading update	13 October 2010
Interim results announcement	16 November 2010
Third quarter trading update	January 2011
Second half trading update	April 2011
Preliminary results announcement	May 2011

### Dividends

The interim dividend for the financial year ended 31 March 2010 of 3.5p per ordinary share was paid on 4 February 2010. A final dividend of 10.5p per share has been proposed and, subject to approval at the Annual General Meeting on 15 July 2010, will be paid on 5 August 2010 to shareholders on the register at the close of business on 9 July 2010.

Dividends can be paid by BACS directly into a UK bank account, with the tax voucher being sent to the shareholders address. A dividend mandate form is available from Equiniti or at [www.shareview.co.uk](http://www.shareview.co.uk).

Record date	9 July 2010
Final date for return of DRIP mandate forms	22 July 2010
Payment date and DRIP purchase	5 August 2010
Interim dividend payable	Expected February 2011

### Dividend Reinvestment Plan

Burberry's Dividend Reinvestment Plan (DRIP) enables shareholders to use their dividends to buy further shares in the Company. Full details of the DRIP can be obtained from Equiniti. If you would like your final and future dividends to qualify for the DRIP, completed application forms must be returned to Equiniti by 22 July 2010.

### Dividends payable in foreign currencies

Equiniti are able to pay dividends to shareholders in over 30 countries worldwide through the Overseas Payment Service. An administrative fee will be deducted from each dividend payment. Further details can be obtained from Equiniti or online at [www.shareview.co.uk](http://www.shareview.co.uk).

The ADR local payment date will be approximately five business days after the proposed dividend payment date for ordinary shareholders.



### Annual General Meeting

Burberry's Annual General Meeting will be held at the offices of Slaughter and May at:

One Bunhill Row  
London  
EC1Y 8YY

on Thursday, 15 July 2010 at 9.30 am.

The Notice of Meeting, together with details of the business to be conducted at the meeting, is available on the Company's website [www.burberryplc.com](http://www.burberryplc.com).

The voting results for the 2010 Annual General Meeting, including proxy votes and votes withheld, will be accessible on the Company's website at [www.burberryplc.com](http://www.burberryplc.com), shortly after the meeting.

### Share price information

The latest Burberry share price is available on the Group's website at [www.burberryplc.com](http://www.burberryplc.com).

### Share dealing

Burberry Group plc shares can be traded through most banks, building societies or stock brokers. Equiniti offers a telephone and internet dealing service. Terms and conditions and details of the commission charges are available on request.

For telephone dealing please telephone 08456 037 037 between 8.00am and 4.30pm, Monday to Friday, and for internet dealing visit [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing). Shareholders will need their reference number which can be found on their share certificate.

### ShareGift

Shareholders with a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating their shares to charity through ShareGift, a donation scheme operated by The Orr Mackintosh Foundation (registered charity 1052686). A ShareGift donation form can be obtained from Equiniti Limited. Further information is available at [www.sharegift.org](http://www.sharegift.org) or by telephone on +44 (0) 20 7930 3737.

### Unauthorised brokers (boiler room scams)

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments.

More detailed information can be found on the FSA website, at [www.moneymadeclear.org.uk](http://www.moneymadeclear.org.uk).

If you receive unsolicited investment advice:

- make sure you get the correct name of the person and organisation
- check that they are properly authorised by the FSA before getting involved. You can check this by visiting the FSA Register
- the FSA also maintains a list of unauthorised overseas firms who are targeting, or have targeted, UK investors. This list can be found at [www.fsa.gov.uk/pages/doing/regulated/law/alerts/unauthorised.shtml](http://www.fsa.gov.uk/pages/doing/regulated/law/alerts/unauthorised.shtml)
- any approach from such organisations should be reported to the FSA using the online form so that this list can be kept up to date and any other appropriate action can be considered
- inform the Registrar

### Registered office

Burberry Group plc  
Horseferry House  
Horseferry Road  
London SW1P 2AW  
[www.burberryplc.com](http://www.burberryplc.com)

Registered in England and Wales  
Registered Number 03458224

## EXECUTIVE TEAM

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### Executive directors

**Angela Ahrendts**

Chief Executive Officer

**Stacey Cartwright**

Executive Vice President

Chief Financial Officer

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### Senior management

**Christopher Bailey**

Chief Creative Officer

**John Douglas**

Senior Vice President

Information Technology

**Carol Fairweather**

Senior Vice President

Group Finance

**Emilio Foa**

Senior Vice President

Emerging Markets

**Joy Frommer**

President, Europe

**Stephen Gilbert**

Senior Vice President

Retail Development

**Andy Janowski**

Chief Operations Officer

**William Kim**

Senior Vice President

Digital Commerce

**Andrew Maag**

Senior Vice President

Menswear

**Michael Mahony**

Senior Vice President

Commercial Affairs and General Counsel

**Sarah Manley**

Senior Vice President

Marketing and Communications

**Matt McEvoy**

Senior Vice President

Strategy and Licensing

**Pascal Perrier**

President, Asia Pacific

**Paul Price**

Senior Vice President

Non-Apparel

**Reg Sindall**

Executive Vice President

Corporate Resources

**Michele Smith**

Senior Vice President

Womenswear

**Mark Taylor**

Senior Vice President

Human Resources

**Eugenia Ulasewicz**

President, Americas

