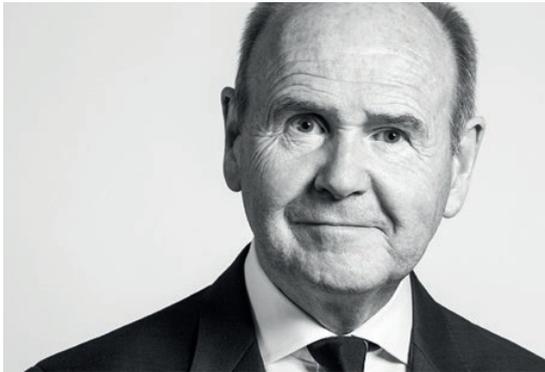


CHAIRMAN'S LETTER

Good early progress against Burberry's ambitious plans.



Sir John Peace
Chairman

Last year I highlighted the fundamental changes taking place in the luxury sector and in consumer behaviour. These were influenced by a challenging global environment, which had impacted the performance of the sector as a whole, as demand slowed sharply in many of Burberry's key markets. To stay ahead of these changes and to create future value for shareholders, we announced an acceleration of our productivity and efficiency agenda, particularly looking at our ways of working. We identified significant future organic revenue growth opportunities and a programme of actions to deliver at least £100m of annualised cost savings by FY 2019.

The Board also considered with Christopher Bailey, the shape of the leadership team required to maximise our growth opportunities and to successfully implement these plans. It was concluded that there was a need for a new chief executive with strong luxury retail experience to lead on the commercial, operational and financial elements of the business, who could partner closely with Christopher, who would continue his leadership of the brand and design elements of the business as President and Chief Creative Officer. Since taking on the combined role of Chief Creative and Chief Executive Officer, Christopher has made significant progress against a backdrop of challenging market conditions. The Board is appreciative of his efforts in working with the Board to identify a new chief executive to partner with him on the execution of our growth plans.

As Carol Fairweather and John Smith had signalled their intention to step down as Chief Financial Officer and Chief Operating Officer respectively, focus was also on the succession of these roles, with the decision to combine them to align with the change programme.

The Board unanimously supported the appointment of Marco Gobbetti as Chief Executive Officer who will join the Board on 5 July 2017 (with Christopher transitioning to his new role at that time), and Julie Brown who joined the Board as Chief Operating and Financial Officer on 18 January 2017. The Board believes that the combination of Christopher's creative talent and vision for Burberry and Marco's extensive skills in luxury and retail, as well as Julie's financial and commercial track record, will provide strong leadership for the next phase of Burberry's evolution.

The Board would like to thank Carol Fairweather for her immense contribution to Burberry over the past ten years, and John Smith for his contribution to Burberry over the past seven years, first as a non-executive director and latterly as Chief Operating Officer. We wish them all the best for the future.

Financial performance and shareholder returns

As a whole, the luxury sector has continued to remain challenging during the year, with some signs of improvement during the second half. We have made strategic long-term choices to strengthen the brand and reposition Burberry for growth over time, and good progress with the implementation of our programme including the establishment of our five key pillars to underpin our growth and productivity agenda. More detail on our progress is set out in Christopher's letter and in this Report.

Burberry has delivered 2016/17 revenues of £2.8bn (down 2% underlying), and adjusted profit before tax of £462m (up £42m and down 21% underlying). This was in part impacted by a decrease in licensing profit due to the planned expiry of our Japanese licences and other actions we have taken to build and reinforce our brand positioning. We also delivered the planned £20m of cost savings in FY 2017. This is expected to build to c. £50m in FY 2018 and is on track to deliver the target of at least £100m annualised in FY 2019.

The Group ended the year with a strong cash balance of £809m, up £149m year-on-year after £97m of share buyback and £164m of dividends. Consequently, the Board has recommended a 5% increase in the full year dividend to 38.9p, in line with our progressive dividend policy resulting in a 50% pay-out ratio based on adjusted earnings per share. This reflects the Board's confidence in the future growth of the business.

Our approach to capital allocation is based on a framework which defines our priorities for uses of cash, underpinned by our principle to maintain a strong balance sheet with solid investment grade credit metrics. This underlines our commitment to increasing shareholder returns over time, which remains a key priority for the Board.

Over the past five years, Burberry has returned around £700m to shareholders through dividends, and in April 2017 completed £100m of a £150m announced share buyback. A further share buyback of £300m will be completed in FY 2018, in addition to the £50m already announced. This is inclusive of the distribution of the Coty upfront sum.

Other Board developments

The composition of the Board has evolved significantly over the past few years with the appointment of four new non-executive directors and one longer-serving Board member stepping down. Further changes are planned over the coming year. The aim is to continue to refresh the Board while ensuring stability and continuity, particularly in the context of significant management change.

Following a previous review of the Board Committees, changes were implemented during the year. This included the appointment of Jeremy Darroch as Chair of the Audit Committee and Fabiola Arredondo as Chair of the Remuneration Committee, as well as changes to the composition of those Committees.

People and pay

Our new Remuneration Policy will be presented to shareholders for their vote at our upcoming Annual General Meeting (AGM), and so our Remuneration Committee Chair Fabiola Arredondo has been meeting with our shareholders and consulting with them on the proposed Policy. You can read more about the Policy in the Directors' Remuneration Report on pages 87 to 111.

Governance and diversity

The Board seeks to operate to the highest standards of corporate governance. The work of the Board and its Committees during the year, along with the assessment of its performance, is set out in the Corporate Governance Report on pages 70 to 86. Burberry continues to support diversity in all its forms across the organisation including the Board. While all Board appointments are made on merit, the Board continues to believe in the importance of a diverse Board and has always had strong gender diversity amongst its membership, including at executive level. The Board will continue to monitor diversity, including across the business, and to take such steps as it considers appropriate to maintain its position as a meritocratic and diverse business.

Looking ahead

To conclude, this has been an important year of change for Burberry, not only due to macro trends but also the way that Burberry operates as a business. Looking ahead to 2017/18, we will continue to focus on our brand, our products and the execution of our key strategies. Although there is still much to be done as Burberry continues its multi-year programme, the Board firmly believes that the new leadership team coupled with the actions we are taking, will significantly enhance our ability to deliver long-term sustainable growth.

Finally, I would like to thank all of our people for their hard work and dedication, particularly during this time of change for Burberry. I would also like to thank the Board for its hard work and commitment to Burberry, and to thank you, our shareholders, for your support over the past 12 months.