

Burberry Group plc

2005/06 Preliminary Results

25 May 2006. Burberry Group plc reports preliminary results for its financial year to 31 March 2006.

Summary of Results⁽¹⁾

| | Year to 31 March | | Change % |
|--|------------------|------------|-------------|
| | 2006 £m | 2005 £m | |
| Turnover ⁽²⁾ | 742.9 | 715.5 | 4 |
| Operating profit before Atlas costs ⁽³⁾ | 165.6 | 161.3 | 3 |
| Operating profit | 154.5 | 161.3 | (4) |
| Attributable profit for the year | 106.4 | 111.9 | (5) |
| Diluted EPS before Atlas costs | 24.1p | 22.2p | 9 |
| Diluted EPS | 22.3p | 22.2p | 0 |
| Diluted weighted average number of Ordinary Shares | 477.6m | 504.5m | (5) |

Financial Highlights

- Total revenues increased 3% on an underlying⁽⁴⁾ basis to £742.9 million
 - Retail revenue increased 11% underlying
 - Wholesale revenue declined 4% underlying
 - Licensing revenue increased 6% underlying
- Operating profit before Atlas costs increased 3% to £165.6 million
- Operating margin before Atlas costs of 22.3% vs 22.5% in prior period
- Diluted EPS before Atlas costs increased 9% to 24.1p
- Continued strong free cash flow with £79 million generated in the year
- Completed £250 million share repurchase programme with £192 million repurchased during 2005/06
 - Achieved targeted cash neutral capitalisation
- Final dividend of 5.5p per Ordinary Share proposed
 - 8.0p for full year, a 23% increase

⁽¹⁾ Financial results are reported under International Financial Reporting Standards. Prior year figures have been restated in line with these principles.

⁽²⁾ Turnover differs from the £753 million reported in the Second Half Trading Update on 12 April 2006 due to a change in foreign currency translation methodology. Following its demerger from GUS plc, the Group plans to convert financial results monthly based upon average exchange rates for each month. Previously, Burberry applied the year's cumulative average exchange rates to the period reported. This new methodology will be adopted in 2006/07. Reported results presented here for the 2005/06 financial year are consistent with this new methodology.

⁽³⁾ Project Atlas costs of £11.1 million (2005: nil) relate to the Group's infrastructure redesign initiative announced in May 2005.

⁽⁴⁾ Underlying figures exclude the financial effect of the Taiwan Acquisition and the portion of Burberry's business in Spain affected by the retail conversion, in both reporting periods. In addition, underlying figures are calculated at the same exchange rates used in the 2004/05 year's reported results for the period. Burberry completed the acquisition of the operations and assets of its distributors in Taiwan in August 2005 (the "Taiwan Acquisition") and initiated actions related to the retail conversion in Spain during the third quarter of 2005/06.

Strategic and Operating Highlights

- Advanced retail strategy through key investments
 - Opened 12 new stores and outlets and a net 9 new concessions
 - Completed 7 significant store renovations
 - Converted 72 womenswear doors to retail concessions in Burberry's largest wholesale market, Spain
 - Acquired 12 retail locations in Taiwan
- Continued progress in product design and development
 - Strengthened core outerwear lines
 - Increased frequency of new product flow to stores
 - Burberry Creative Director named Designer of the Year by British Fashion Council
- Outstanding growth in emerging markets
- Prepared for direct distribution of selected international products in Japan
- Launched major new fragrance, Burberry London, in spring 2006
- Project Atlas fully embedded in the organisation
 - Re-phased implementation to enhance long-term benefits
- Commenced celebration of Burberry's 150th year

Rose Marie Bravo, Chief Executive, stated, *"In a year of transition and investment, the Group achieved solid financial results while advancing a number of strategic initiatives aimed at Burberry's next stage of development. With a strong spring season underway, we enter our 150th year with confidence in Burberry's future."*

Management will discuss these results during a presentation to analysts and institutions at 1:00pm today at Merrill Lynch Financial Centre, King Edward Hall, 2 King Edward Street, London EC1A 1HQ (telephone +44 (0) 20 7968 0577). The presentation will also be broadcast live on the Internet at www.burberryplc.com and can be accessed by telephone at +44 (0) 20 7081 7194 (UK and international) and +1 866 432 7186 (US). Replay: +44 (0) 20 8196 1998 (UK and international) and +1 866 583 1035 (US), access number 299766.

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

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

Business and Financial Review

Business Review

Burberry delivered solid financial results for the year to 31 March 2006. In the context of a period marked by strategic investment and transition, diluted EPS before costs associated with Project Atlas, increased 9% on a 4% revenue gain. Return on capital for the period was 33%. This performance reflects the continued execution of Burberry's core strategies in combination with strategic and operational transition in certain businesses. Highlights of these factors are discussed below.

Regions. Burberry maintained steady progress across its trading regions

- **US.** Revenue rose 5% underlying, 9% reported, with strong retail growth driven by new and existing stores partially offset by the expected reduction in wholesale sales. The Group opened seven stores during the year, including those in Naples (Florida), Palm Beach Gardens (Florida), San Antonio (Texas), San Diego (California), and three outlet stores. Five major renovations were also completed in the year.
- **Europe.** Underlying revenue was flat in the region. Soft sales in the UK and Spain offset strong retail and wholesale performance in the remainder of Continental markets. During the year, the Group opened a replacement store in Zurich, seven concessions, three outlet stores and completed renovation of the Frankfurt and Munich stores.
- **Non-Japan Asia Pacific.** Revenue increased 6% underlying, 13% reported. Underlying growth was led by strong retail performance in Greater China (Hong Kong and mainland). In Korea, new retail space drove modest growth for the year, notwithstanding a challenging consumer spending environment. Solid gains in South Asian markets resulted from sales growth in existing stores and among wholesale customers. During the year, the Group opened a replacement store in Taipei and closed a net one concession in the region. The integration of the 12 stores in Taiwan acquired in August 2005 also contributed to the reported gain in this geographic segment.
- **Emerging markets.** Outstanding underlying revenue growth in emerging markets was driven primarily by the opening of nine franchised stores during the year, including stores in Istanbul (Turkey), Warsaw (Poland), Sao Paulo (Brazil), Jeddah (Saudi Arabia), Riyadh (Saudi Arabia), Abu Dhabi (UAE), Dubai (UAE), Mumbai (India) and Cancun (Mexico).

Channels. Performance varied by distribution channel.

- **Retail.** Consistent with the Group's emphasis on building sales through its directly operated stores, the retail channel achieved the strongest gain. Retail sales increased 11% on an underlying basis, 20% reported, driven by

contributions from newly opened and existing stores. Reported revenues were affected by the Taiwan Acquisition and Spain retail conversion, which shift sales from the Group's wholesale channel to its retail channel. In August 2005, Burberry acquired the operations of its distributors in Taiwan, which included 12 retail locations. In February 2006, the Group began the conversion of 72 womenswear doors in department stores of Burberry's largest customer in Spain into Burberry operated retail concessions. Retail sales resulting from the Taiwan Acquisition and Spain conversion contributed approximately five percentage points to the reported sales gain. In determining underlying performance, the financial effects of the relevant businesses are excluded from both reporting periods.

By region, double digit sales growth in the US, Burberry's largest retail market, was driven by new and refurbished stores with a moderate contribution from existing stores. The majority of Continental European markets achieved strong underlying gains driven by new stores and solid gains from existing stores. While the UK was generally soft, trends improved in the second half of the year. Asia achieved robust underlying growth, with gains in Hong Kong and South Asia partially balanced by a modest increase in Korea.

Retail investment continued on plan. During the year, the Group opened six Burberry stores (including two replacement stores), six outlet stores and a net nine concessions. In addition, seven stores underwent major renovation during the year. In total, on a year-over-year basis, average selling space increased approximately 8%, excluding the effect of the Taiwan Acquisition and Spain conversion. At 31 March 2006, Burberry's retail portfolio consisted of 65 stores, 165 concessions and 30 outlets.

- **Wholesale.** Wholesale sales decreased by 4% on an underlying basis, 8% reported. The US market experienced a decline for the year as a result of Burberry's ongoing adjustment of the brand's wholesale/retail balance, as well as caution on the part of certain wholesale customers. Soft demand in Spain produced a mid single digit sales decline in that market during the period. While trends varied by country, in aggregate, other Continental European markets performed well. The UK was soft throughout the year. Sales in Asia decreased slightly in the year as a second half decline, primarily driven by shipment timing differences between periods, offset first half gains. Boosted by the opening of nine new franchise stores, emerging markets achieved outstanding gains during the year. The Taiwan Acquisition and Spain retail conversion accounted for approximately five percentage points of the decrease in reported wholesale sales.
- **Licensing.** Licensing revenues increased 6% underlying, 3% reported.

In Japan, which accounted for approximately 70% of licensing revenue, sales volumes declined primarily as a result of a soft apparel market for much of the year as well as Burberry's ongoing programme to enhance brand positioning in that market. This programme involves licence transitions/cancellations, improving distribution and upgrading products in terms of design and quality. Royalty rate increases on certain licences offset the effect of reduced volumes.

In 2006/07, the Group will begin direct sales of men's ties, scarves and silks from Burberry's international collection. Imported products will replace licensed domestic products in these categories. In addition, a limited range of Burberry's international collection of handbags and small leather goods will be selectively distributed in this market.

Burberry's product licenses produced a solid result for the year. Against important product launches in 2004/05, fragrance sales were comparable to the previous period. In February 2006, Burberry commenced a major women's fragrance launch, Burberry London. Marketing initiatives feature Oscar-winning British actress Rachel Weisz. The product was introduced to most large consumer markets during spring 2006, and will be followed by launch of the Burberry London men's fragrance in autumn 2006. Watches performed well in the year, strengthened by product innovation and expanded distribution. With respect to eyewear, Burberry entered into a new licence with Luxottica Group in October 2005. The first collections under this agreement will appear in stores during autumn 2006.

Products. Continuous enhancement of the product development process is an important objective, and the Group made good progress during the year. Burberry's womenswear, menswear and accessory product teams intensified efforts to coordinate development across categories and link more closely their design, merchandising and sales functions. Continuing to respond to consumer demand for new merchandise, Burberry increased the frequency of new product deliveries to Burberry stores and to selected wholesale customers.

- **Prorsum.** Burberry Prorsum continues to break new ground with its runway collections attracting outstanding critical acclaim. In recognition of Prorsum's design excellence, Burberry Creative Director, Christopher Bailey, was awarded Designer of the Year by the British Fashion Council in November 2005. Consumers also responded, and Prorsum sales increased substantially during the year.
- **Womenswear.** In Womenswear, underlying revenues increased 3% as a soft Spring 2005 season was balanced by improved Autumn/Winter 2006 collection sales and a strong start to Spring 2006. These results reflect successful efforts to adjust the product's aesthetic balance, improve fit and increase the 'wear-now' component of seasonal collections. In outerwear, the design team's work to reinvigorate key outerwear segments was rewarded with favourable reaction to new styles for both the autumn and spring seasons. Womenswear generated 34% of total revenues in the year.
- **Menswear.** Underlying revenues increased 4% as the division made steady progress in the year. Greater emphasis on more classic styling and intensifying selection in prime classifications were important contributors to this performance. In the US, the sartorial segment of the business was boosted by successful made-to-measure events. In selected markets, Burberry launched its first marketing efforts specifically targeted at the male consumer. Menswear represented 28% of reported revenues in the year.

- **Accessories.** Underlying revenues were flat relative to last year. New, sophisticated handbag designs, particularly Prorsum lines, performed well in the period. To capitalise on consumer demand for these more advanced styles, the Group broadened distribution within its own store network during the spring season and will add points of sale among wholesale customers for autumn/winter 2006. At the same time, Burberry also successfully upgraded its more classic core handbag ranges – the new Haymarket line of handbags and small leather goods was a highlight of the year. Ongoing innovation with respect to new styles and reinvention of the classics are critical to the vitality of this category. Accessories (excluding childrenswear) comprised 25% of reported revenues in the year.

Project Atlas

With the initial year of Burberry's five-year infrastructure redesign programme complete, Project Atlas is firmly embedded in the organisation. During the year, the team reconfigured the implementation plan in line with business processes rather than software installations. This results in the shifting of previously scheduled initial implementation steps to later in the programme for combination with secondary stages, allowing for a single point of application for most business units. The broad financial outline of the programme remains unchanged with an approximate £50 million investment during the first three years generating in excess of £20 million annually in expense savings by the project's third year (2007/08).

2006/07 plans

In line with the ongoing execution of its growth strategies, Burberry's plans for the 2006/07 financial year include:

- **Retail.** A minimum 10% underlying increase in average net retail selling space (excluding the impact of the Taiwan Acquisition and Spain retail conversion). The majority of space expansion will be concentrated in the US and Asian markets.
- **Wholesale.** First half wholesale sales up a low single digit percentage underlying and reported (at constant currency) relative to the comparative period based upon orders received to date for the Autumn/Winter 2006 season.
- **Licensing.** Broadly flat underlying licensing revenue relative to 2005/06
 - Revenues from Japan are expected to experience a moderate underlying decline for the year as a result of licence transitions and Burberry's other ongoing efforts to enhance brand positioning in this market.
 - Global product licenses are expected to produce strong gains.
 - On a reported basis, the Group will also experience a significant negative exchange rate comparison.
- **Project Atlas.** For the 2006/07 financial year, Atlas expenses are expected to be approximately £19 million and direct profit and loss account benefits are currently anticipated to total approximately £6 million.
- **Capital expenditure.** Capital expenditure is planned to total approximately £50 million.

Conclusion

During the past year, Burberry delivered solid financial results while at the same time advancing important strategic initiatives to secure the foundation for Burberry's next phase of growth. This performance was fuelled by the endeavours of the Burberry team, the commitment of licensing partners and the support of our wholesale customers.

For Burberry, the year ahead marks the anniversary of the business's founding by Thomas Burberry in 1856. The celebration of our 150th year commemorates the brand's unique heritage and the enduring attributes of innovation, quality and style that continue to propel our momentum. We look to the future with confidence and enthusiasm as we carry this legacy forward.

Financial Review

Group results⁽¹⁾

| Year to 31 March | 2006 | | 2005 | |
|---|----------------|------------------------|----------------|------------------------|
| | £m | Percentage of turnover | £m | Percentage of turnover |
| Turnover | | | | |
| Retail | 318.5 | 42.9% | 265.2 | 37.0% |
| Wholesale | 343.3 | 46.2% | 371.9 | 52.0% |
| Licence | 81.1 | 10.9% | 78.4 | 11.0% |
| Total turnover | 742.9 | 100.0% | 715.5 | 100.0% |
| Cost of sales | (296.8) | (40.0%) | (291.3) | (40.7%) |
| Gross profit | 446.1 | 60.0% | 424.2 | 59.3% |
| Net operating expenses before Atlas costs | (280.5) | (37.8%) | (262.9) | (36.7%) |
| Operating profit before Atlas costs | 165.6 | 22.3% | 161.3 | 22.5% |
| Atlas costs | (11.1) | (1.5%) | - | - |
| Operating profit | 154.5 | 20.8% | 161.3 | 22.5% |
| Net finance income | 2.5 | 0.3% | 4.9 | 0.7% |
| Profit before taxation | 157.0 | 21.1% | 166.2 | 23.2% |
| Taxation | (50.6) | (6.8%) | (54.3) | (7.6%) |
| Attributable profit for the year | 106.4 | 14.3% | 111.9 | 15.6% |
| Diluted EPS before Atlas costs | 24.1p | n/a | 22.2p | n/a |
| Diluted EPS | 22.3p | n/a | 22.2p | n/a |
| Diluted weighted average number of Ordinary Shares (millions) | 477.6 | n/a | 504.5 | n/a |

⁽¹⁾ Financial results are reported under International Financial Reporting Standards. Prior year figures have been restated in line with these principles.

Turnover

Total turnover advanced to £742.9m from £715.5m in the prior period, representing an increase of 4%, or 3% on an underlying basis. "Underlying" figures are adjusted to exclude the financial effects of the Taiwan Acquisition, the portion of Burberry's business in Spain affected by the retail conversion and the impact of foreign currency exchange rate movements between periods. The Taiwan Acquisition and Spain conversion resulted in a sales shift from Burberry's wholesale channel to its retail channel. In determining underlying performance, the financial effects of the relevant businesses are excluded from both reporting periods.

Operating profit

Gross profit as a percentage of turnover was 60.0% relative to 59.3% in the prior period. The increase largely resulted from stronger retail trading in the second half including decreased levels of seasonal clearance activity for the autumn/winter season relative to the previous year and an increase in retail's share of the revenue mix.

Net operating expenses before Atlas costs as a percentage of turnover increased to 37.8% from 36.7% in the previous period. The increase largely reflected investment in people and infrastructure to support future growth, and costs associated with the expanded retail network following the conversions in Taiwan and Spain. The Group

also incurred a one-off pension related cost following the demerger from GUS.

As a result of these factors, operating profit before Atlas costs increased 3% to £165.6m, or 22.3% of turnover relative to 22.5% in the previous period.

Net expenses associated with Project Atlas totalled £11.1m. Reported operating profit was £154.5m for the year.

Net finance income

Net interest income was £2.5m in the year to March 2006 compared to £4.9m in the prior period. The decrease was due to lower average cash balances resulting from share repurchase activity during the year.

Profit before taxation

As a result of the above factors, Burberry reported profit before taxation of £157.0m in the year to March 2006 compared to £166.2m in the prior period.

Attributable profit

Burberry recorded a 32.2% effective tax rate (2004/05: 32.7%) on profit resulting in a £50.6m tax charge and reported attributable profit of £106.4m for the year to March 2006 compared to £111.9m reported in the prior period.

Diluted earnings per share before Atlas costs increased 9% to 24.1p compared to 22.2p in the prior period. Including Atlas costs, the Group reported diluted earnings per share of 22.3p. In the year to March 2006, the diluted weighted average number of ordinary shares in issue was 477.6m (2004/05: 504.5m).

Cash flow and net funds

Historically, Burberry's principal uses of funds have been to support capital expenditures and working capital growth in connection with the expansion of its business, acquisitions and share repurchases. Principal sources of funds have been cash flow from operations. Burberry expects to finance the expansion of its business, capital expenditures including strategic infrastructure investments, shareholder dividends and share repurchases with existing cash balances, cash generated from operating activities and the use of its credit facilities.

The table below sets out the principal components of cash flow for the year to 31 March 2006 and 31 March 2005 and net funds at the period end:

| Year to 31 March | 2006 | 2005 |
|--|----------------|--------------|
| | <i>£m</i> | <i>£m</i> |
| Operating profit before Atlas costs | 165.6 | 161.3 |
| Atlas costs | (11.1) | - |
| Operating profit | 154.5 | 161.3 |
| Depreciation and related charges | 24.9 | 24.4 |
| Profit on disposal of fixed assets | (1.6) | (1.1) |
| Charges in respect of employee share incentive schemes | 7.4 | 9.5 |
| Increase in stocks | (17.8) | (12.9) |
| Decrease/(Increase) in debtors | 2.2 | (7.3) |
| (Decrease)/Increase in creditors | (21.2) | 1.5 |
| Cash generated from operations | 148.4 | 175.4 |
| Net interest received | 1.6 | 4.7 |
| Taxation paid | (43.6) | (49.5) |
| Capital expenditure | (30.7) | (37.2) |
| Property sale proceeds | 3.6 | 3.1 |
| Net acquisition related payments | (23.6) | - |
| Net sale/(purchase) of shares by ESOPs | 2.4 | (6.9) |
| Issue of ordinary share capital | 3.7 | 4.4 |
| Share repurchases | (191.6) | (58.4) |
| Equity dividends paid | (32.8) | (24.9) |
| Movement in net funds resulting from cash flows | (162.6) | 10.7 |
| Exchange gains | 5.2 | 1.3 |
| Movement in net funds | (157.4) | 12.0 |
| Net funds at end of period | 12.5 | 169.9 |

Net cash generated from operating activities was £148.4m compared to £175.4m in the prior period. Stock levels increased £17.8m, resulting from growth of the business and expansion of the Group's retail network. The £2.2 million decrease in debtors reflects seasonal growth of trade debtors offset by the change in business structure resulting from the Spain and Taiwan conversions. The £21.2m decrease in creditors includes payments of profit related fees in respect of prior acquisitions and the settlement prior to demerger of amounts outstanding with GUS plc.

Capital expenditures of £30.7m included net purchases of fixed assets of £26.8m relating primarily to continued investment in the Group's retail operations and infrastructure, and Project Atlas investment of £3.9m. Proceeds from the sale of certain surplus properties during the year amounted to £3.6m. Net acquisition related payments comprised £19.2m deferred consideration with respect to a previous acquisition and £4.4m as partial consideration for the acquisition of Burberry's distributors in Taiwan.

In line with its risk management policy, Burberry has continued to hedge its principal foreign currency transaction exposures arising in respect of Yen denominated royalty income and Euro denominated product purchases and sales.

In connection with share option awards, the Group sold £2.4m (2004/05: £1.8m) of equity from its Employee Share Ownership Trusts and received £3.7m (2004/05: £4.4m) from the issue of new shares following the exercise of share-based options.

Consistent with the £250m share repurchase programme announced in November 2004, Burberry commenced the repurchase of shares in January 2005. In the year to March 2006 the Group repurchased 45.9m shares for a total cost of £191.6m. Total purchases under the repurchase programme since January 2005 amounted to £250m.

The Group paid an interim dividend of 2.5p per share on 2 February 2006. A final dividend of 5.5p per share is proposed, payable August 2006. As proposed the total dividend for 2005/06 would increase 23% to 8.0p per share (£35.6 million aggregate amount).

Group Income Statement

| | Note | Year to 31 March 2006 ⁽¹⁾ £m | Year to 31 March 2005 ⁽²⁾ £m |
|---|------|--|--|
| Turnover | 4 | 742.9 | 715.5 |
| Cost of sales | | (296.8) | (291.3) |
| Gross profit | | 446.1 | 424.2 |
| Net operating expenses | 5 | (291.6) | (262.9) |
| Operating profit | | 154.5 | 161.3 |
| Financing | | | |
| Interest receivable and similar income | 7 | 4.3 | 5.5 |
| Interest payable and similar charges | 7 | (1.8) | (0.6) |
| Net finance income | 4,7 | 2.5 | 4.9 |
| Profit before taxation | 4,6 | 157.0 | 166.2 |
| Taxation | 8 | (50.6) | (54.3) |
| Attributable profit for the year | | 106.4 | 111.9 |

The profit for the year is attributable to the equity holders of the Company and relates to continuing operations.

| <u>Pence per share</u> | | | |
|---|----|-------|-------|
| Earnings | | | |
| - basic | 9 | 22.9p | 22.7p |
| - diluted | 9 | 22.3p | 22.2p |
| Dividends | | | |
| Dividend per share - interim | 10 | 2.5p | 2.0p |
| Dividend per share - proposed final (not recognised as a liability at 31 March) | 10 | 5.5p | 4.5p |

| <u>Non-GAAP measures</u> | | | |
|--|---|--------------|--------------|
| | | £m | £m |
| Reconciliation to adjusted operating profit | | | |
| Operating profit | | 154.5 | 161.3 |
| Atlas costs | 5 | 11.1 | - |
| Operating profit before Atlas costs | | 165.6 | 161.3 |
| <u>Pence per share</u> | | | |
| Earnings per share before Atlas costs | | | |
| - basic | 9 | 24.7p | 22.7p |
| - diluted | 9 | 24.1p | 22.2p |

⁽¹⁾ Reflects the adoption of IAS 32 and IAS 39

⁽²⁾ Does not reflect the adoption of IAS 32 and IAS 39

Group Statement of Recognised Income and Expense

| | Note | Year to 31 March 2006 ⁽¹⁾ £m | Year to 31 March 2005 ⁽²⁾ £m |
|--|-------|--|--|
| Attributable profit for the year | | 106.4 | 111.9 |
| Cash flow hedges | 21 | (3.8) | - |
| Currency translation differences | 21 | 15.6 | 5.5 |
| Net actuarial gains/(losses) on defined benefit pension scheme | 21 | 0.7 | (1.5) |
| Tax on items taken directly to equity | 21 | 1.5 | (0.3) |
| Net income recognised directly in equity | | 14.0 | 3.7 |
| Transfers | | | |
| Transferred to income and expense on cash flow hedges net of tax | 21 | (0.7) | - |
| Taxation items transferred from equity | | 0.2 | - |
| Net transfers | | (0.5) | - |
| Net gains not recognised in income statement | | 13.5 | 3.7 |
| Total recognised income for the year | | 119.9 | 115.6 |
| Total impact on adoption of IAS 32 and IAS 39 | 3, 21 | 1.9 | - |
| Total | | 121.8 | 115.6 |

⁽¹⁾ Reflects the adoption of IAS 32 and IAS 39

⁽²⁾ Does not reflect the adoption of IAS 32 and IAS 39

All the recognised income and expense is attributable to the equity holders of the Company.

Group Balance Sheet

| | Note | As at 31 March 2006 ⁽¹⁾ £m | As at 31 March 2005 ⁽²⁾ £m |
|--|------|--|--|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 11 | 135.4 | 125.2 |
| Property, plant and equipment | 12 | 167.0 | 154.4 |
| Deferred taxation assets | 13 | 16.6 | 15.0 |
| Trade and other receivables | 14 | 4.2 | 1.3 |
| Income tax recoverable | | - | 0.8 |
| | | 323.2 | 296.7 |
| Current assets | | | |
| Stock | 15 | 124.2 | 102.5 |
| Trade and other receivables | 14 | 108.0 | 112.2 |
| Derivative financial assets | 26 | 2.8 | - |
| Income tax recoverable | | 0.2 | 3.1 |
| Cash and cash equivalents | 16 | 113.7 | 169.9 |
| | | 348.9 | 387.7 |
| Non-current assets classified as held for sale | 17 | - | 1.2 |
| | | 348.9 | 388.9 |
| Total assets | | 672.1 | 685.6 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Long term liabilities | 18 | (14.6) | (14.8) |
| Deferred taxation liabilities | 13 | (10.5) | (13.0) |
| Retirement benefit obligations | 30 | (1.8) | (2.1) |
| Provisions for liabilities and charges | 19 | (2.8) | (2.9) |
| | | (29.7) | (32.8) |
| Current liabilities | | | |
| Bank overdrafts and borrowings | 27 | (101.2) | - |
| Derivative financial liabilities | 26 | (2.1) | - |
| Trade and other payables | 20 | (126.9) | (160.6) |
| Income tax liabilities | | (25.6) | (19.9) |
| | | (255.8) | (180.5) |
| Total liabilities | | (285.5) | (213.3) |
| Net assets | | 386.6 | 472.3 |
| EQUITY | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 21 | 0.2 | 1.1 |
| Share premium | 21 | 151.8 | 136.1 |
| Capital reserve | 21 | 25.8 | 24.9 |
| Hedging reserve | 21 | (0.2) | - |
| Foreign currency translation reserve | 21 | 21.2 | 5.4 |
| Retained earnings | 21 | 187.8 | 304.8 |
| Total equity | | 386.6 | 472.3 |

⁽¹⁾ Reflects the adoption of IAS 32 and IAS 39

⁽²⁾ Does not reflect the adoption of IAS 32 and IAS 39

Approved by the Board on 24 May 2006 and signed on its behalf by:

| | |
|------------|-------------------------|
| John Peace | Stacey Cartwright |
| Chairman | Chief Financial Officer |

Group Cash Flow Statement

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|--|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | | |
| Operating profit | 154.5 | 161.3 |
| Depreciation, impairment and intangible amortisation charges | 24.9 | 24.4 |
| Profit on disposal of property, plant and equipment | (1.6) | (1.1) |
| Charges in respect of employee share incentive schemes | 7.4 | 9.5 |
| Increase in stocks | (17.8) | (12.9) |
| Decrease/(increase) in debtors | 2.2 | (7.3) |
| (Decrease)/increase in creditors | (21.2) | 1.5 |
| Cash generated from operations | 148.4 | 175.4 |
| Taxation paid | (43.6) | (49.5) |
| Net cash inflow from operating activities | 104.8 | 125.9 |
| Cash flows from investing activities | | |
| Purchase of tangible and intangible fixed assets | (30.7) | (37.2) |
| Proceeds from sale of property, plant and equipment | 3.6 | 3.1 |
| Payment of deferred consideration | (19.2) | - |
| Acquisition of subsidiary | (4.4) | - |
| Net cash outflow from investing activities | (50.7) | (34.1) |
| Cash flows from financing activities | | |
| Interest received | 3.0 | 5.3 |
| Interest paid | (1.4) | (0.6) |
| Equity dividends paid | (32.8) | (24.9) |
| Issue of Ordinary Share capital | 3.7 | 4.4 |
| Purchase of shares through share buy back | (191.6) | (58.4) |
| Purchase of own shares by ESOPs | - | (8.7) |
| Sale of own shares by ESOPs | 2.4 | 1.8 |
| Draw down on loan facility | 50.0 | - |
| Net cash outflow from financing activities | (166.7) | (81.1) |
| Net (decrease)/increase in cash and cash equivalents | (112.6) | 10.7 |
| Effect of exchange rate changes on opening balances | 5.2 | 1.3 |
| Cash and cash equivalents at beginning of period | 169.9 | 157.9 |
| Cash and cash equivalents at end of period | 62.5 | 169.9 |

Analysis of cash and cash equivalents

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Cash | 70.2 | 62.4 |
| Short term deposits | 43.5 | 107.5 |
| Cash and cash equivalents as per the balance sheet | 113.7 | 169.9 |
| Bank overdrafts as per the balance sheet | (51.2) | - |
| Cash and cash equivalents per the cash flow statement | 62.5 | 169.9 |

NOTES TO THE FINANCIAL STATEMENTS

1 Basis of preparation

Burberry Group is a luxury goods manufacturer, wholesaler and retailer in Europe, North America and Asia Pacific; licensing activity is also carried out, principally in Japan. All of the companies, which comprise Burberry Group, are owned by Burberry Group plc ("the Company") directly or indirectly.

Under European Union (EU) legislation, it is mandatory for EU listed companies to report under International Financial Reporting Standards (IFRS), for financial years commencing after 1 January 2005. Accordingly, the consolidated financial statements for the year to 31 March 2006 have been prepared in accordance with IFRS as adopted by the European Union and IFRS issued by the IASB, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. All IFRS issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission. Since the Group is not affected by the provisions regarding portfolio hedging which are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both IFRS as adopted by the EU and IFRS issued by the IASB. The Group had previously reported under UK GAAP.

The results to 31 March 2005 have been restated from UK GAAP to IFRS using the same accounting policies as those used for the results to 31 March 2006, other than as described in note 3 - Changes in accounting policies and presentation. The principal adjustments that were required by Burberry Group on conversion to IFRS are set out in note 32 - Transition to IFRS.

Burberry has adopted early IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The following IFRSs, International Financial reporting and Interpretations Committee requirements (IFRICs) and amendments thereto have been adopted earlier than required:

- December 2004 amendment to IAS 19 Employment Benefits permitting the recognition of actuarial gains and losses directly in equity (from 1 April 2005);
- April 2005 amendment to IAS 39 Financial instruments: Recognition and Measurement concerning cash flow hedges of forecast intra-group transactions (from 1 April 2005); and
- June 2005 amendment to IAS 39 concerning the fair value option (from 1 June 2005).

The following IFRS and IFRICs have been issued but have not been adopted early by the Group:

IFRIC4 - Determining whether an arrangement contains a lease (effective from 1 April 2006) requires the determination of whether an arrangement contains a lease.

IFRIC7 - Applying the restatement approach (effective from 1 April 2006) provides guidance on hyperinflation accounting.

IFRS7 - Financial instruments: Disclosures (effective from 1 April 2007) introduces new disclosures for financial instruments. It replaces disclosure requirements in IAS 32 Financial Instruments: Disclosure and presentation.

The impact of these IFRS and IFRICs on the Group's financial statements is currently being assessed.

The parent Company has not adopted IFRS as its statutory reporting basis. Audited financial statements for the parent Company, have been prepared in accordance with UK GAAP.

These consolidated financial statements have been prepared under the historical cost convention, except in respect of certain financial instruments.

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 financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

The effects of intra-group transactions are eliminated in preparing the Group financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

Non-GAAP measures

Non-GAAP measures are presented in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business. Such presentation will be prepared on a consistent basis in the future.

Key sources of estimation uncertainty

Preparation of the consolidated financial statements in conformity with IFRS requires that management make certain 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 goodwill and asset impairment, stock provisioning, income and deferred tax, these are discussed below.

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 assets

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.

Stock provisioning

The Group manufactures and sells luxury goods and is subject to changing consumer demands and fashions trends. As a result, it is necessary to consider the recoverability of the cost of stocks and the associated provisioning required. Stock provisioning is based on the method in which excess stocks can be disposed.

Income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Judgment is required in determining the provision for income taxes in each territory. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit 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 to 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The principle accounting policies of the Group are:

a) Turnover

Turnover, 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 transference of risks and rewards of ownership, with provisions made for expected returns and allowances. Provisions for returns are calculated based on historical return levels. Retail sales, returns and allowances are reflected at the dates of transactions with customers, in addition provisions are made for expected returns. 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) Share schemes

Incentive plans

The cost of the share incentives received by employees (including 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 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 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.

c) Operating leases

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

Lease premiums and incentives

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 full term of the lease.

d) 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 for the final dividend or paid in respect of the interim dividend.

e) Pension costs

Prior to the demerger of the Group from GUS plc on 13 December 2005, it was agreed that existing employees of members of the Burberry Group who were participating in the GUS defined benefit pension scheme would continue to do so until 31 December 2007 or such earlier date as required by HM Customs & Revenue or by Burberry. When eventual withdrawal of members of the Burberry Group from the GUS pension scheme takes place on or before 31 December 2007, Burberry must pay any liabilities due under section 75 or 75A of the Pensions Act 1995. GUS has indemnified Burberry on an after tax basis against any amounts which are in excess of £1.25m.

The pension costs in these consolidated financial statements are determined in accordance with IAS 19 "Employee Benefits".

NOTES TO THE FINANCIAL STATEMENTS (continued)

Defined benefit schemes

Eligible employees of Burberry Group participate in a number of defined benefit schemes throughout the world; the principal defined benefit scheme is in the UK. The assets covering this arrangement are held in independently administered funds.

The cost of providing defined benefit schemes to participating Burberry employees is charged to the income statement over the anticipated period of employment.

The asset or liability recognised in the balance sheet, in respect of defined benefit schemes, represents Burberry'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 actuarial gains and losses and past service costs.

Actuarial gains and losses are recognised directly to equity through the Group Statement of Recognised Income and Expense.

Defined contribution schemes

Burberry Group 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 Burberry employees is recognised in the income statement and comprises the amount of contributions payable to the schemes in respect of the year.

f) 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 bring the accounting policies of acquired businesses into alignment with those of Burberry Group.

Prior to 31 March 2004, goodwill was held at cost less accumulated amortisation. Goodwill was assigned a finite useful economic life, not exceeding 20 years, and was amortised in equal annual instalments. Upon transition to IFRS on 1 April 2004, goodwill was assigned an indefinite useful economic life in accordance with IFRS 3 "Business Combinations", and it ceased to be amortised.

Impairment reviews are performed annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Trademarks and other intellectual property

The cost of securing and renewing trademarks 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 trademarks and other intellectual property is determined on a case-by-case basis, in accordance with the terms of the underlying agreement.

Impairment reviews are performed if events or changes in circumstances indicate that the carrying value may not be recoverable.

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.

g) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 |

Impairment

Impairment reviews are undertaken when performance trends or changes in circumstances suggest that the net book value of an item of property, plant or equipment is not fully recoverable.

Profit/loss on disposal of property, plant and equipment

Profits and losses on 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.

h) Non-current assets held for sale

A non-current asset is classified as held for sale, when its carrying value will be recovered principally through sale. Non-current assets held for sale are carried at the lower of cost or fair value less costs to sell and are not depreciated.

i) 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 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).

j) Stock

Stock 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 stock, as well as its anticipated saleability.

k) Taxation including deferred tax

The income 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 is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 income tax is determined using tax rates (and laws) that have been

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 income tax liability is settled. Deferred tax assets and liabilities are not discounted.

Deferred income 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 income 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.

l) 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.

m) 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, and derivative instruments, the accounting for which is explained below.

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, liquidity funds as well as bank overdrafts. 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 12 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 creditor with no intention of trading the payable. They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivative instruments

Burberry 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 currency contracts taken out to hedge highly probable future royalty receivables and product purchases.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 derivatives 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 on the date a derivative contract is entered into 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.

The gain or loss on fair value hedges is taken to the income statement, along with the gain or loss on the hedged item for the hedged risk.

The portion of the gain or loss on cash flow hedges determined to be effective, is initially taken to the hedging reserve within equity. The ineffective portion of the gain or loss is recognised to the income statement when required. The amount recognised directly to equity is released to the income statement, when the underlying transaction affects the income statement. If it is expected that all or a portion of a loss recognised directly in equity will not be recovered in one or more future periods or the hedge is no longer expected to occur the amount that is not expected to be recovered will be reclassified to the income statement.

If a derivative instrument is not designated as a hedge, the gain or loss on revaluation is taken to the income statement.

n) 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 date of the transaction. 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 taken to 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 Burberry 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 at the weighted average exchange rate for the year 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 and are reported in the consolidated statement of changes in equity. The principal exchange rates used were as follows:

| | Average | |
|------------------|-----------------------------|-----------------------------|
| | Year to 31 March 2006 | Year to 31 March 2005 |
| Euro | 1.46 | 1.47 |
| US dollar | 1.79 | 1.85 |
| Hong Kong dollar | 13.77 | 14.40 |
| Korean won | 1,796.97 | 2,040.52 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

| | Closing | |
|------------------|---------------------------|---------------------------|
| | As at 31 March 2006 | As at 31 March 2005 |
| Euro | 1.43 | 1.45 |
| US dollar | 1.74 | 1.88 |
| Hong Kong dollar | 13.48 | 14.69 |
| Korean won | 1,687.95 | 1,920.46 |

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 average exchange rate achieved by Burberry Group on its Yen royalty income, taking into account its use of Yen forward sale contracts on a monthly basis approximately 12 months in advance of royalty receipts, was Yen 190.3: £1 in the year to 31 March 2006 (2005: Yen 184.3: £1).

3. Changes in accounting policies and presentation

The results for the year to 31 March 2006 have incorporated the impact of the adoption of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement".

Impact of the adoption of IAS 32 and IAS 39

IFRS 1 "First time adoption of IFRS" allows an entity, for financial instruments, to produce comparative information, under previous UK GAAP. However, for the first IFRS reporting period, being 31 March 2006, the adjustment between the balance sheet at the comparative period's reporting date (under the previous GAAP) and the balance sheet at the start of the first IFRS reporting period must be accounted for as a change in accounting policy.

The Group has taken advantage of this exemption and has adopted IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" with effect from 1 April 2005. The impact of these standards on the Group's opening balance sheet is shown below.

The principal impact of the adoption of IAS 32 and IAS 39 on the Group's financial statements relates to the classification of redeemable preference shares and the recognition of derivative financial instruments.

The adjustments to the opening balance sheet at 1 April 2005 are shown in the table below, only those line items that have been impacted are shown:

| | Opening balance sheet under IFRS | Effect of adoption of IAS 32 and IAS 39 | | Restated opening position at 1 April 2005 |
|----------------------------------|--|--|---------------------|--|
| | £m | Reclassification £m | Remeasurement £m | £m |
| Current assets | | | | |
| Trade and other receivables | 112.2 | (0.4) | - | 111.8 |
| Derivative financial assets | - | 0.4 | 5.8 | 6.2 |
| Current liabilities | | | | |
| Derivative financial liabilities | - | - | (1.6) | (1.6) |
| Non-current liabilities | | | | |
| Long term liabilities | (14.8) | (0.8) | - | (15.6) |
| Deferred tax liabilities | (13.0) | - | (1.5) | (14.5) |
| Impact on net assets | | (0.8) | 2.7 | |
| Share capital | 1.1 | (0.8) | - | 0.3 |
| Hedging reserve | - | - | 2.6 | 2.6 |
| Retained earnings | 304.8 | - | 0.1 | 304.9 |
| Impact on equity | | (0.8) | 2.7 | |

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 Segmental analysis

(i) Primary segment - analysis by origin

The geographical segment from which the products or services are supplied to a third party or another segment defines analysis by origin. All licensing activity is recorded in Europe since the Intellectual Property of Burberry is owned by Burberry Limited, a UK based subsidiary.

(a) Turnover and profit before taxation - by origin of business

Europe comprises operations in France, Germany, Italy, Switzerland and the UK. North America comprises operations in the USA. Asia Pacific comprises operations in Australia, Hong Kong, Japan, Korea, Malaysia, Singapore and Taiwan.

| Year to 31 March | Spain | | Europe | | North America | | Asia Pacific | | Total | |
|---|--------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|--------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Gross segment turnover | 154.9 | 170.3 | 326.9 | 365.3 | 173.2 | 157.8 | 182.4 | 149.1 | 837.4 | 842.5 |
| Inter-segment turnover | (0.5) | (0.1) | (93.5) | (126.3) | - | - | (0.5) | (0.6) | (94.5) | (127.0) |
| Turnover | 154.4 | 170.2 | 233.4 | 239.0 | 173.2 | 157.8 | 181.9 | 148.5 | 742.9 | 715.5 |
| Operating profit | 21.1 | 22.7 | 104.8 | 115.3 | 6.3 | 6.0 | 22.3 | 17.3 | 154.5 | 161.3 |
| Net finance income | | | | | | | | | 2.5 | 4.9 |
| Profit before taxation | | | | | | | | | 157.0 | 166.2 |
| Taxation | | | | | | | | | (50.6) | (54.3) |
| Attributable profit for the year | | | | | | | | | 106.4 | 111.9 |

The results above are stated after the allocation of costs of a Group-wide nature.

(b) Other segmental items - by origin of business

| | Spain | | Europe | | North America | | Asia Pacific | | Total | |
|-----------------------------|------------|------------|------------|------------|---------------|------------|--------------|------------|------------|------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Capital expenditure | 4.0 | 7.0 | 13.6 | 16.7 | 12.5 | 17.6 | 2.9 | 1.6 | 33.0 | 42.9 |
| Depreciation | 4.4 | 4.3 | 8.1 | 6.7 | 7.7 | 6.7 | 2.3 | 1.5 | 22.5 | 19.2 |
| Impairment charge | - | - | 0.6 | 3.1 | 0.2 | 0.3 | - | - | 0.8 | 3.4 |
| Reversal of impairment loss | - | - | (0.4) | (0.2) | - | - | - | - | (0.4) | (0.2) |
| Amortisation | | | | | | | | | | |
| - trademarks | - | - | 0.9 | 0.8 | - | - | - | - | 0.9 | 0.8 |
| - software | 0.2 | 0.3 | 0.8 | 0.8 | - | - | 0.1 | 0.1 | 1.1 | 1.2 |
| Other non-cash expenses | | | | | | | | | | |
| - share based payments | 1.3 | 2.0 | 2.8 | 3.7 | 1.9 | 2.3 | 1.4 | 1.5 | 7.4 | 9.5 |

(c) Assets and liabilities - by origin of business

| As at 31 March | Spain | | Europe | | North America | | Asia Pacific | | Total | |
|--|-------------|-------------|-------------|-------------|---------------|--------------|--------------|------------|--------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Segmental assets | 103.5 | 112.3 | 142.3 | 129.6 | 145.9 | 121.4 | 28.7 | 19.5 | 420.4 | 382.8 |
| Segmental liabilities | (30.9) | (36.7) | (67.5) | (79.6) | (25.5) | (19.0) | (12.8) | (12.4) | (136.7) | (147.7) |
| Net operating assets | 72.6 | 75.6 | 74.8 | 50.0 | 120.4 | 102.4 | 15.9 | 7.1 | 283.7 | 235.1 |
| Goodwill | | | | | | | | | 121.2 | 114.0 |
| Deferred consideration for acquisitions | | | | | | | | | (11.5) | (32.7) |
| Cash at bank, short term deposits, less bank overdrafts and borrowings | | | | | | | | | 12.5 | 169.9 |
| Taxation (including deferred taxation) | | | | | | | | | (19.3) | (14.0) |
| Net assets | | | | | | | | | 386.6 | 472.3 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) Secondary segment - analysis by origin

Segment turnover and profit before taxation - by class of business (being the channels to market)

| Year to 31 March | Retail | | Wholesale | | Total Retail and Wholesale | | Licensing | | Total | |
|------------------------|--------------|--------------|--------------|--------------|-------------------------------|--------------|-------------|-------------|--------------|--------------|
| | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m | 2006 £m | 2005 £m |
| Gross segment turnover | 318.5 | 265.2 | 437.8 | 498.9 | 756.3 | 764.1 | 81.1 | 78.4 | 837.4 | 842.5 |
| Inter-segment turnover | - | - | (94.5) | (127.0) | (94.5) | (127.0) | - | - | (94.5) | (127.0) |
| Turnover | 318.5 | 265.2 | 343.3 | 371.9 | 661.8 | 637.1 | 81.1 | 78.4 | 742.9 | 715.5 |
| Other segmental items | | | | | | | | | | |
| Segment assets | | | | | 418.1 | 380.3 | 2.3 | 2.5 | 420.4 | 382.8 |
| Capital expenditure | | | | | 33.0 | 42.9 | - | - | 33.0 | 42.9 |

The results above are stated after the allocation of costs of a Group-wide nature.

(iii) Additional information

Analysis of turnover is shown below as additional information:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|--|-----------------------------------|-----------------------------------|
| Turnover by product | | |
| Womenswear | 249.3 | 242.1 |
| Menswear | 206.2 | 194.5 |
| Accessories (including Childrens) | 203.2 | 197.6 |
| Other | 3.1 | 2.9 |
| Wholesale and Retail | 661.8 | 637.1 |
| Licence | 81.1 | 78.4 |
| Total | 742.9 | 715.5 |
| Number of directly operated stores, concessions and outlets open at 31 March | 260 | 157 |

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|-------------------------|-----------------------------------|-----------------------------------|
| Turnover by destination | | |
| Spain | 134.1 | 168.4 |
| Europe | 216.3 | 188.0 |
| North America | 180.4 | 165.9 |
| Asia Pacific | 201.4 | 186.6 |
| Other | 10.7 | 6.6 |
| Total | 742.9 | 715.5 |

5 Net operating expenses

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Distribution costs | (125.9) | (111.0) |
| Administrative expenses (excluding Atlas costs) | (156.3) | (153.9) |
| Atlas costs | (11.1) | - |
| Property rental income under operating leases | 0.1 | 0.9 |
| Profit on disposal of property, plant and equipment | 1.6 | 1.1 |
| Net operating expenses | (291.6) | (262.9) |

Operating profit for the year to 31 March 2006 includes a charge of £11.1m (2005: £nil) relating to Project Atlas, our major infrastructure redesign initiative, which was announced in May 2005. In addition, a total of £3.9m (2005: £nil) has been spent on capitalised IT investment for Project Atlas in the year to 31 March 2006. This project is designed to create a substantially stronger platform to support the long term operations and growth of the Group. Investment in Project Atlas is expected to be around £50m over the three year period to 2007/08.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 Profit before taxation

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|--|-----------------------------------|-----------------------------------|
| Profit before taxation is stated after charging/(crediting): | | |
| Depreciation of property, plant and equipment | | |
| - within cost of sales | 1.3 | 1.3 |
| - within distribution costs | 2.8 | 0.5 |
| - within administrative expenses | 18.4 | 17.4 |
| Amortisation of trademarks and other intellectual property (included in administrative expenses) | 2.0 | 2.0 |
| Fixed asset impairment charge relating to certain retail assets | 0.8 | 3.4 |
| Reversal of asset impairment charge relating to certain retail assets | (0.4) | (0.2) |
| Profit on disposal of property, plant and equipment | (1.6) | (1.1) |
| Project Atlas costs | 11.1 | - |
| Employee costs (see note 29) | 148.7 | 131.7 |
| Operating lease rentals | | |
| - minimum lease payments | 27.7 | 22.0 |
| - contingent rents | 13.5 | 17.6 |
| Auditor's remuneration | 2.4 | 2.1 |
| Net exchange loss/(gain) included in income statement | 0.8 | (0.7) |

Auditor's remuneration is further analysed as follows:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|----------------------------|-----------------------------------|-----------------------------------|
| Audit services | | |
| - statutory audit | 0.9 | 0.8 |
| - audit related services | 0.1 | 0.3 |
| Further assurance services | 0.3 | 0.3 |
| Tax services | | |
| - compliance services | 0.2 | 0.2 |
| - advisory services | 0.9 | 0.5 |
| Total | 2.4 | 2.1 |

All work performed by the external auditors is controlled by an authorisation policy agreed by the Audit Committee. The over-riding principle is the auditors are precluded 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. (Further assurance work includes transaction related activities and ethical audits. Tax related services includes compliance, transfer pricing, and other activities where tax advice has been provided.)

7 Net finance income

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Bank interest income | 3.7 | 4.4 |
| Interest income receivable from GUS related companies | 0.1 | 0.9 |
| Other interest income | 0.5 | 0.2 |
| Interest receivable and similar income | 4.3 | 5.5 |
| Interest on bank loans and overdrafts | (1.8) | (0.4) |
| Interest expense payable to GUS related companies | - | (0.2) |
| Interest expense and similar charges | (1.8) | (0.6) |
| Net finance income | 2.5 | 4.9 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

8 Taxation

(i) Analysis of charge for the year recognised in the income statement

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|--|-----------------------------------|-----------------------------------|
| Analysis of charge for the year | | |
| <u>Current tax</u> | | |
| UK corporation tax | | |
| Current tax on income for the year to 31 March 2006 at 30% (2005: 30%) | 30.4 | 37.3 |
| Double taxation relief | (7.1) | (7.4) |
| Adjustment in respect of prior years | 0.4 | 1.2 |
| | 23.7 | 31.1 |
| Foreign tax | | |
| Current tax on income for the year | 28.3 | 21.0 |
| Adjustments in respect of prior years | 1.4 | (1.1) |
| Total current tax | 53.4 | 51.0 |
| <u>Deferred tax</u> | | |
| UK deferred tax | | |
| Origination and reversal of temporary differences | 0.2 | 0.9 |
| Adjustments in respect of prior years | 0.7 | (0.3) |
| | 0.9 | 0.6 |
| Foreign deferred tax | | |
| Origination and reversal of temporary differences | (1.9) | 1.5 |
| Adjustments in respect of prior years | (1.8) | 1.2 |
| Total deferred tax | (2.8) | 3.3 |
| Tax on profit | 50.6 | 54.3 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) Analysis of charge for the year recognised in equity

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| <u>Current tax</u> | | |
| Current tax charge/(credit) on share options (retained earnings) | (0.6) | - |
| Current tax charge/(credit) on exchange differences on loans (translation reserve) | (0.2) | (0.1) |
| Total current tax recognised in equity | (0.8) | (0.1) |
| <u>Deferred tax</u> | | |
| Deferred tax charge/(credit) on cash flow hedges recognised directly to equity (hedging reserve) | (1.5) | - |
| Deferred tax charge/(credit) on cash flow hedges settled during the year (hedging reserve) | (0.2) | - |
| Deferred tax charge/(credit) on share options (retained earnings) | (2.0) | (0.8) |
| Deferred tax charge/(credit) on actuarial gains/losses recognised during the year (retained earnings) | 0.2 | 0.2 |
| Total deferred tax charge/(credit) recognised in equity | (3.5) | (0.6) |

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

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Tax at 30% on profit before taxation | 47.1 | 49.9 |
| Rate adjustments relating to overseas profits | (0.9) | 0.2 |
| Permanent differences | 3.6 | 2.3 |
| Tax losses utilised | - | (0.1) |
| Tax losses for which no deferred tax recognised | - | (0.1) |
| Adjustments in respect of prior years | 0.8 | 1.5 |
| Other | - | 0.6 |
| Total taxation | 50.6 | 54.3 |

A review is currently under way with the Competent Authorities with regard to resolving transfer pricing of internal sales between the UK and USA. As part of the agreements with GUS plc (Burberry Group's former parent company), certain tax liabilities, which arise and relate to matters prior to 31 March 2002 will be met by GUS plc. From 1 April 2002, any liability will be due from Burberry Group. No corporation tax provision has been made for additional taxation arising for these proceedings as none is anticipated overall.

9 Earnings per share

The calculation of basic earnings per share is based on attributable profit for the year divided by the weighted average number of Ordinary Shares in issue during the year. Basic and diluted earnings per share before Atlas costs are also disclosed to indicate the underlying profitability of Burberry Group.

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Attributable profit for the year before Atlas costs | 114.8 | 111.9 |
| Effect of Atlas costs (after taxation) | (8.4) | - |
| Attributable profit for the year | 106.4 | 111.9 |

The weighted average number of Ordinary Shares represents the weighted average number of Burberry Group plc Ordinary Shares in issue throughout the year, excluding Ordinary Shares held in Burberry Group's ESOPs.

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 awards made under the share incentive schemes, which will have a dilutive effect when exercised (full vesting of all outstanding awards is assumed).

NOTES TO THE FINANCIAL STATEMENTS (continued)

| | Year to 31 March 2006 Millions | Year to 31 March 2005 Millions |
|---|---|---|
| Weighted average number of Ordinary Shares in issue during the year | 464.4 | 494.1 |
| Dilutive effect of the share incentive schemes | 13.2 | 10.4 |
| Diluted weighted average number of Ordinary Shares in issue during the year | 477.6 | 504.5 |

| | Year to 31 March 2006 Pence | Year to 31 March 2005 Pence |
|--|--------------------------------------|--------------------------------------|
| Basic earnings per share | | |
| Basic earnings per share before Atlas costs | 24.7 | 22.7 |
| Effect of Atlas costs | (1.8) | - |
| Basic earnings per share | 22.9 | 22.7 |

| | Year to 31 March 2006 Pence | Year to 31 March 2005 Pence |
|--|--------------------------------------|--------------------------------------|
| Diluted earnings per share | | |
| Diluted earnings per share before Atlas costs | 24.1 | 22.2 |
| Effect of Atlas costs | (1.8) | - |
| Diluted earnings per share | 22.3 | 22.2 |

10 Dividends

Ordinary dividends (Equity)

| | | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|--|----------------------|-----------------------------------|-----------------------------------|
| Prior year final dividend paid (4.5p per share (2005: 3.0p)) | - GUS group | 14.2 | 9.9 |
| | - other Shareholders | 7.3 | 5.0 |
| Interim dividend paid (2.5p per share (2005: 2.0p)) | - GUS group | - | 6.6 |
| | - other Shareholders | 11.3 | 3.4 |
| Total | | 32.8 | 24.9 |

A final dividend in respect of the year to 31 March 2006 of 5.5p (2005: 4.5p) per share, amounting to £24.3m (2005: £21.7m), has been proposed for approval by the Shareholders at the AGM 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 3 August 2006 to Shareholders on the register at the close of business on 6 July 2006.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Intangible assets

| Cost | Goodwill £m | Trademarks and trading licences £m | Computer Software £m | Total £m |
|---|----------------|--|----------------------------|--------------|
| As at 1 April 2004 | 110.6 | 11.4 | 5.1 | 127.1 |
| Effect of foreign exchange rate changes | 3.4 | 0.3 | 0.1 | 3.8 |
| Additions | - | 0.1 | 1.0 | 1.1 |
| Disposals | - | - | (1.1) | (1.1) |
| Reclassifications | - | - | 0.1 | 0.1 |
| As at 31 March 2005 | 114.0 | 11.8 | 5.2 | 131.0 |
| Effect of foreign exchange rate changes | 3.3 | 0.1 | - | 3.4 |
| Additions | 3.9 | 0.1 | 4.9 | 8.9 |
| As at 31 March 2006 | 121.2 | 12.0 | 10.1 | 143.3 |
| Accumulated amortisation | | | | |
| As at 1 April 2004 | - | 1.5 | 3.3 | 4.8 |
| Effect of foreign exchange rate changes | - | - | 0.1 | 0.1 |
| Charge for the year | - | 0.8 | 1.2 | 2.0 |
| Disposals | - | - | (1.1) | (1.1) |
| As at 31 March 2005 | - | 2.3 | 3.5 | 5.8 |
| Effect of foreign exchange rate changes | - | - | 0.1 | 0.1 |
| Charge for the year | - | 0.9 | 1.1 | 2.0 |
| As at 31 March 2006 | - | 3.2 | 4.7 | 7.9 |
| Net book value | | | | |
| As at 31 March 2006 | 121.2 | 8.8 | 5.4 | 135.4 |
| As at 31 March 2005 | 114.0 | 9.5 | 1.7 | 125.2 |

Impairment testing of goodwill

The cash generating units which have the most significant carrying values of goodwill allocated to them are Spain and Korea. The carrying value of the goodwill allocated to these cash generating units is:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--------------|---------------------------------|---------------------------------|
| Spain | 89.1 | 87.9 |
| Korea | 23.1 | 21.9 |
| Other | 9.0 | 4.2 |
| Total | 121.2 | 114.0 |

At 31 March 2006 no impairment loss was recognised (2005: nil), as the recoverable amount of the goodwill for each cash generating unit exceeded its carrying value.

Spain

The recoverable amount for Spain has been determined based on value in use. The value in use calculation was performed using pre-tax cash flow projections for the next three years based on financial plans approved by management. These cash flows were discounted at a rate of 12% (2005: 12%), being Burberry Group's pre-tax weighted average cost of capital adjusted for certain country specific criteria. The future cash flows beyond the three year period were extrapolated using a long term growth rate of 3% (2005: 3%).

Korea

The recoverable amount for Korea was also calculated based on the value in use, using pre-tax cash flow projections for the next three years based on financial plans approved by management. The cash flows were discounted at a rate of 11% (2005: 13%), being Burberry group's pre-tax weighted average cost of capital adjusted for certain country specific criteria. The future cash flows beyond the three year period were extrapolated using a long term growth rate of 3% (2005: 3%).

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Property, plant and equipment

| Cost | Freehold land and buildings £m | Leasehold Improvements £m | Fixtures, fittings and equipment £m | Assets in the course of construction £m | Total £m |
|--|-----------------------------------|------------------------------|--|--|--------------|
| As at 1 April 2004 | 83.4 | 47.5 | 76.4 | 1.2 | 208.5 |
| Effect of foreign exchange rate changes | 0.1 | (0.7) | 0.6 | (0.1) | (0.1) |
| Additions | 1.2 | 12.3 | 23.6 | 4.7 | 41.8 |
| Disposals | (1.1) | (4.6) | (7.0) | - | (12.7) |
| Reclassifications | - | 1.0 | 0.1 | (1.2) | (0.1) |
| Transfer to assets classified as held for sale | (1.6) | - | - | - | (1.6) |
| As at 31 March 2005 | 82.0 | 55.5 | 93.7 | 4.6 | 235.8 |
| Effect of foreign exchange rate changes | 3.7 | 3.8 | 2.9 | 0.2 | 10.6 |
| Additions | 0.1 | 8.7 | 17.0 | 2.2 | 28.0 |
| Disposals | - | (0.3) | (2.3) | - | (2.6) |
| Reclassifications | 0.3 | 3.7 | 0.3 | (4.3) | - |
| Acquisition of subsidiary | - | - | 0.6 | - | 0.6 |
| As at 31 March 2006 | 86.1 | 71.4 | 112.2 | 2.7 | 272.4 |
| Accumulated depreciation | | | | | |
| As at 1 April 2004 | 15.1 | 13.8 | 41.4 | - | 70.3 |
| Effect of foreign exchange rate changes | 0.1 | (0.1) | 0.5 | - | 0.5 |
| Provided in year | 2.6 | 2.0 | 14.6 | - | 19.2 |
| Impairment charge on certain retail assets | - | 2.2 | 1.0 | - | 3.2 |
| Disposals | (0.2) | (4.6) | (6.6) | - | (11.4) |
| Transfer to assets classified as held for sale | (0.4) | - | - | - | (0.4) |
| As at 31 March 2005 | 17.2 | 13.3 | 50.9 | - | 81.4 |
| Effect of foreign exchange rate changes | 0.7 | 0.6 | 1.6 | - | 2.9 |
| Provided in year | 2.5 | 4.3 | 15.7 | - | 22.5 |
| Impairment charge on certain retail assets | - | 0.1 | 0.3 | - | 0.4 |
| Disposals | - | (0.1) | (1.7) | - | (1.8) |
| Reclassifications | 0.3 | - | (0.3) | - | - |
| As at 31 March 2006 | 20.7 | 18.2 | 66.5 | - | 105.4 |
| Net book amount | | | | | |
| As at 31 March 2006 | 65.4 | 53.2 | 45.7 | 2.7 | 167.0 |
| As at 31 March 2005 | 64.8 | 42.2 | 42.8 | 4.6 | 154.4 |

During the year to 31 March 2006 the trading performance of certain European and North American retail assets which had previously been impaired were further impaired as trading conditions remained challenging. The impairment charge of £0.4m (2005: £3.2m) has been included in 'net operating expenses' in the income statement. The impairment charge was based on a review of the value of the assets in use and was based on pre-tax cash flows attributable to these assets in accordance with IAS 36. The pre-tax discount rate used in these calculations was 10%.

Based on a valuation report prepared by Colliers Conrad Ritblat Erdman, dated 16 May 2006, the existing use value of Burberry Group's ten most significant freehold properties is £158m. This valuation is £96m higher than the net book value of these assets. The directors do not intend to incorporate this valuation into the accounts but set out the valuation for information purposes only.

NOTES TO THE FINANCIAL STATEMENTS (continued)

13 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, in addition deferred income taxes must relate to the same fiscal authority. The offset amounts are shown in the table below:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--------------------------|---------------------------------|---------------------------------|
| Deferred tax assets | 16.6 | 15.0 |
| Deferred tax liabilities | (10.5) | (13.0) |
| Net amount | 6.1 | 2.0 |

The gross movement of the deferred tax account is as follows:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Beginning of the year | 2.0 | 4.6 |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | (1.5) | - |
| Effect of foreign exchange rate changes | (0.7) | 0.4 |
| (Charged)/credited to the income statement | 2.8 | (3.3) |
| Tax (charged)/credited to equity | 3.5 | 0.6 |
| Other movements | - | (0.3) |
| End of the year | 6.1 | 2.0 |

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

Deferred tax liabilities

| | Accelerated capital allowances £m | Unrealised stock profit and other stock provisions £m | Share schemes £m | Derivative instruments £m | Unused tax losses £m | Other £m | Total £m |
|---|--|--|------------------------|---------------------------------|----------------------------|--------------|---------------|
| As at 31 March 2004 | (13.3) | 1.2 | 0.5 | - | 0.2 | (0.3) | (11.7) |
| Effect of foreign exchange rate changes | 0.3 | 0.1 | - | - | - | (0.2) | 0.2 |
| Charged/(credited) to the income statement | (3.4) | 0.1 | (0.1) | - | 0.5 | (0.3) | (3.2) |
| As at 31 March 2005 | (16.4) | 1.4 | 0.4 | - | 0.7 | (0.8) | (14.7) |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | - | - | - | 0.1 | - | - | 0.1 |
| Effect of foreign exchange rate changes | (1.2) | 0.2 | - | - | - | (0.1) | (1.1) |
| Charged/(credited) to the income statement | 1.7 | 0.1 | (0.4) | - | (0.2) | 0.2 | 1.4 |
| Tax charged to equity | - | - | - | (0.1) | - | - | (0.1) |
| Other movements | (0.1) | 0.1 | - | - | 0.2 | 3.4 | 3.6 |
| As at 31 March 2006 | (16.0) | 1.8 | - | - | 0.7 | 2.7 | (10.8) |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Deferred tax assets

| | Accelerated capital allowances £m | Unrealised stock profit and other stock provisions £m | Share schemes £m | Derivative instruments £m | Unused tax losses £m | Other £m | Total £m |
|---|--------------------------------------|--|---------------------|------------------------------|-------------------------|--------------|-------------|
| As at 1 April 2004 | 0.3 | 7.5 | 6.5 | - | 0.2 | 1.8 | 16.3 |
| Effect of foreign exchange rate changes | - | 0.1 | - | - | - | 0.1 | 0.2 |
| Charged/(credited) to the income statement | (0.2) | (1.2) | 0.8 | - | - | 0.5 | (0.1) |
| Tax charged to equity | - | - | 0.8 | - | - | (0.2) | 0.6 |
| Other movements | - | - | - | - | - | (0.3) | (0.3) |
| As at 31 March 2005 | 0.1 | 6.4 | 8.1 | - | 0.2 | 1.9 | 16.7 |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | - | - | - | (1.6) | - | - | (1.6) |
| Effect of foreign exchange rate changes | - | 0.4 | - | - | - | - | 0.4 |
| Charged/(credited) to the income statement | 0.6 | 0.5 | (1.2) | (0.2) | - | 1.7 | 1.4 |
| Tax charged to equity | - | - | 2.0 | 1.8 | - | (0.2) | 3.6 |
| Other movements | (0.6) | 0.7 | - | - | (0.2) | (3.5) | (3.6) |
| As at 31 March 2006 | 0.1 | 8.0 | 8.9 | - | - | (0.1) | 16.9 |

Deferred tax assets are recognised for tax loss carry forwards 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 £5.8m (2005: £4.9m) in respect of losses amounting to £25.2m (2005: £19.6m) that can be carried forward against the future taxable income. These losses have no set expiry date. Other deferred tax assets of £0.1m (2005: £0.1m) were not recognised in respect of temporary differences totalling £0.1m (2005: £0.3m), as it was not probable that there will be future taxable profits against which these assets can be offset.

Deferred tax has not been recognised in respect of temporary differences of £70.6m (2005: £40.8m) regarding the unremitted earnings of certain subsidiaries. Such amounts are permanently reinvested.

14 Trade and other receivables

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------|---------------------------|
| Non-current | | |
| Deposits and prepayments | 4.2 | 1.3 |
| Total non-current trade and other receivables | 4.2 | 1.3 |
| Current | | |
| Trade receivables | 93.6 | 95.2 |
| Provision for doubtful debts | (4.2) | (3.6) |
| Net trade receivables | 89.4 | 91.6 |
| Other receivables | 3.1 | 1.5 |
| Prepayments and accrued income | 15.5 | 19.1 |
| Total current trade and other receivables | 108.0 | 112.2 |
| Total trade receivables | 112.2 | 113.5 |

The principal non-current receivables are due within five years from the balance sheet date and are not interest bearing.

15 Stock

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|------------------|---------------------------|---------------------------|
| Raw materials | 15.6 | 13.5 |
| Work in progress | 6.4 | 6.7 |
| Finished goods | 102.2 | 82.3 |
| Total | 124.2 | 102.5 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|---|---------------------------------|---------------------------------|
| Cost of stock recognised as an expense during the year | 298.9 | 290.3 |
| Stock written off during the year | 1.3 | 2.0 |
| Reversal during the year of previous write downs of stock | (3.4) | (1.0) |
| Total cost of sales | 296.8 | 291.3 |

The reversal during the year of a previous write down of stock was considered appropriate as a result of the change in market conditions.

16 Cash and cash equivalents

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--------------------------|---------------------------------|---------------------------------|
| Cash at bank and in hand | 70.2 | 62.4 |
| Short term deposits | 43.5 | 107.5 |
| Total | 113.7 | 169.9 |

At 31 March 2006 no balances were deposited with GUS group companies (2005: £18.3m). Prior period amounts were deposited on standards commercial terms.

The effective interest rate on short term deposits was 3.4% (2005: 3.2%), these deposits have an average maturity of nine days (2005: 15 days). The effective interest rate is the weighted average annual interest rate for the Group based on local market rates on short term deposits.

17 Non-current asset held for sale

No assets were held for sale as at 31 March 2006 (2005: £1.2m). The properties held at 31 March 2005 were sold during the year and the gain is recognised in the income statement.

18 Long term liabilities

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|---|---------------------------------|---------------------------------|
| Unsecured | | |
| Other creditors, accruals and deferred income | 9.6 | 4.8 |
| Deferred consideration for acquisition | 5.0 | 10.0 |
| Total | 14.6 | 14.8 |

Deferred consideration due after more than one year arises from the acquisition of the trade and certain assets of the Burberry business in Korea.

Redeemable preference share capital

Called up redeemable preference shares, which do not carry any voting rights, were issued prior to flotation and were held by GUS group.

The redeemable preference shares had the right to a non-cumulative dividend at the rate per annum of six monthly LIBOR minus one percent and to a further dividend equal to the dividend per share paid on the Burberry Group plc's Ordinary Shares once the total dividend on those Ordinary Shares that has been paid in any financial year reaches £100,000 per Ordinary Share.

Burberry Group plc repurchased the preference shares on 12 January 2006 for £1 and the balance was transferred to other reserves as a non-distributable item.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The maturity of long term liabilities, all of which do not bear interest, are as follows:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|------------------------------|---------------------------------|---------------------------------|
| Between one and two years | 5.9 | 6.4 |
| Between two and three years | 1.4 | 5.3 |
| Between three and four years | 1.2 | 0.3 |
| Between four and five years | 0.9 | 0.4 |
| Over five year | 5.2 | 2.4 |
| Total | 14.6 | 14.8 |

19 Provisions for liabilities and charges

| | Property obligations £m |
|----------------------------|-------------------------------|
| As at 1 April 2005 | 2.9 |
| Charged during the year | 0.6 |
| Utilised during the year | (0.7) |
| As at 31 March 2006 | 2.8 |

Property obligations arise from the portfolio of leasehold obligations which the Group maintains and are expected to be utilised within two years.

20 Trade and other payables

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Unsecured | | |
| Trade creditors | 28.0 | 27.5 |
| Trading balances owed to GUS related companies | - | 6.8 |
| Other taxes and social security costs | 6.0 | 6.7 |
| Other creditors | 18.9 | 24.6 |
| Accruals and deferred income | 67.5 | 72.3 |
| Deferred consideration for acquisitions | 6.5 | 22.7 |
| Total | 126.9 | 160.6 |

Deferred consideration due within one year arises from the acquisition of the Burberry business in Korea and the Burberry Taiwan acquisition.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Share capital and reserves

| | 2006 £m | 2005 £m |
|---|----------------|----------------|
| Authorised share capital | | |
| 1,999,999,998,000 (2005: 1,999,999,998,000) Ordinary Shares of 0.05p (2005: 0.05p) each | 1,000.0 | 1000.0 |
| Total | 1,000.0 | 1,000.0 |

| | Number | £m |
|--|--------------------|------------|
| Allotted, called up and fully paid share capital | | |
| Ordinary Shares of 0.05p (2005: 0.05p) each | | |
| As at 1 April 2005 | 488,916,927 | 0.3 |
| Allotted on exercise of IPO Option Scheme awards during the year | 3,664,178 | - |
| Cancelled on repurchase of own shares | (45,868,642) | (0.1) |
| As at 31 March 2006 | 446,712,463 | 0.2 |

| Redeemable preference shares of 0.05p each | | |
|---|-----------------|----------|
| As at 1 April 2005 | 1,600,000,000 | 0.8 |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | - | (0.8) |
| Shares redeemed during the year | (1,600,000,000) | - |
| As at 31 March 2006 | - | - |

| | £m |
|---|------------|
| Share capital and reserves | |
| As at 1 April 2005 | 1.1 |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | (0.8) |
| Cancelled on repurchase of own shares | (0.1) |
| As at 31 March 2006 | 0.2 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Statement of changes in Shareholders' equity

| | Share capital £m | Share premium £m | Hedging reserve £m | Foreign currency translation reserve £m | Capital reserve £m | Retained earnings £m | Total equity £m |
|--|---------------------|---------------------|-----------------------|--|-----------------------|-------------------------|--------------------|
| Balance as at 1 April 2004 | 1.1 | 124.7 | - | - | 25.1 | 281.3 | 432.2 |
| Currency translation differences | - | - | - | 5.5 | (0.2) | 0.2 | 5.5 |
| Actuarial loss on defined benefit pension scheme | - | - | - | - | - | (1.5) | (1.5) |
| Tax on items taken directly to equity | - | - | - | (0.1) | - | (0.2) | (0.3) |
| Net income recognised directly in equity | - | - | - | 5.4 | (0.2) | (1.5) | 3.7 |
| Attributable profit for the year | - | - | - | - | - | 111.9 | 111.9 |
| Total recognised income/(expenses) for the year | - | - | - | 5.4 | (0.2) | 110.4 | 115.6 |
| Employee share option scheme | | | | | | | |
| - value of share options granted | - | - | - | - | - | 9.5 | 9.5 |
| - tax on share options granted | - | - | - | - | - | 0.8 | 0.8 |
| - exercise of share options | - | 11.4 | - | - | - | - | 11.4 |
| - price differential on exercise of shares | - | - | - | - | - | (7.0) | (7.0) |
| Share buy back costs | - | - | - | - | - | (58.4) | (58.4) |
| Purchase of own shares by ESOPs | - | - | - | - | - | (8.7) | (8.7) |
| Sale of shares by ESOPs | - | - | - | - | - | 1.8 | 1.8 |
| Dividend expense for the year | - | - | - | - | - | (24.9) | (24.9) |
| Balance as at 31 March 2005 | 1.1 | 136.1 | - | 5.4 | 24.9 | 304.8 | 472.3 |
| Impact of adopting IAS 32 and IAS 39 (see note 3) | (0.8) | - | 2.6 | - | - | 0.1 | 1.9 |
| Restated balance as at 1 April 2005 | 0.3 | 136.1 | 2.6 | 5.4 | 24.9 | 304.9 | 474.2 |
| Cash flow hedges | - | - | (3.8) | - | - | - | (3.8) |
| Currency translation differences | - | - | - | 15.6 | - | - | 15.6 |
| Actuarial gains on defined benefit pension scheme | - | - | - | - | - | 0.7 | 0.7 |
| Tax on items taken directly to equity | - | - | 1.5 | 0.2 | - | (0.2) | 1.5 |
| Net income recognised directly in equity | - | - | (2.3) | 15.8 | - | 0.5 | 14.0 |
| Transferred to profit and loss on cash flow hedges | - | - | (0.7) | - | - | - | (0.7) |
| Tax on items transferred from equity | - | - | 0.2 | - | - | - | 0.2 |
| Attributable profit for the year | - | - | - | - | - | 106.4 | 106.4 |
| Total recognised income/(expenses) for the year | - | - | (2.8) | 15.8 | - | 106.9 | 119.9 |
| Employee share option scheme | | | | | | | |
| - value of share options granted | - | - | - | - | - | 7.4 | 7.4 |
| - tax on share options granted | - | - | - | - | - | 2.6 | 2.6 |
| - exercise of share options | - | 15.7 | - | - | - | - | 15.7 |
| - price differential on exercise of shares | - | - | - | - | - | (12.0) | (12.0) |
| Share buy back costs | (0.1) | - | - | - | 0.1 | (191.6) | (191.6) |
| Sale of shares by ESOPs | - | - | - | - | - | 2.4 | 2.4 |
| Redemption of preference shares | - | - | - | - | 0.8 | - | 0.8 |
| Dividend expense for the year | - | - | - | - | - | (32.8) | (32.8) |
| Balance as at 31 March 2006 | 0.2 | 151.8 | (0.2) | 21.2 | 25.8 | 187.8 | 386.6 |

During the year to 31 March 2006, the Company repurchased and subsequently cancelled 45,868,642 Ordinary Shares, representing nine percent of the issued share capital, at a total cost of £191.6m. The nominal value of the shares was £22,934, which was transferred to a capital redemption reserve. Retained earnings were reduced by £191.6m. This amount included 870,030 Ordinary Shares purchased in the year to 31 March 2005 which were cancelled in the current year. The share repurchase programme commenced in January 2005 and since then a total of 60,584,230 Ordinary Shares have been repurchased and subsequently cancelled. This represents 12 percent of the original issued share capital at a total cost of £250m. The nominal value of the shares was £30,292 and has been transferred to a capital redemption reserve and the retained earnings have been reduced by £250m since this date.

The cost of own shares held in the Burberry Group ESOPs has been offset against retained earnings, as the amounts paid reduce the profits available for distribution by the Burberry Group and the Company. As at 31 March 2006 the amounts offset against this reserve are £16.0m (2005: £19.0m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Revaluation reserves of £23.4m (2005: £23.4m) recognised under UK GAAP have been transferred to retained earnings and are considered non-distributable. This amount will become distributable if the revalued properties are sold.

Dividend distributions are dependent on the Company's accumulated retained earnings. As at 31 March 2006 the retained earnings of the Company was £541.1m (2005: £744.5m).

The capital reserve consists of non-distributable reserves and the capital redemption reserve arising on the purchase of own shares.

22 Financial commitments

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

| | As at 31 March 2006 | | | As at 31 March 2005 | | |
|----------------------------|--------------------------|-------------|--------------|--------------------------|-------------|--------------|
| | Land and buildings £m | Other £m | Total £m | Land and buildings £m | Other £m | Total £m |
| Amounts falling due | | | | | | |
| Within one year | 26.0 | 1.3 | 27.3 | 20.7 | 0.5 | 21.2 |
| Between two and five years | 80.2 | 1.5 | 81.7 | 64.6 | 0.6 | 65.2 |
| After five years | 112.2 | 2.7 | 114.9 | 91.2 | - | 91.2 |
| Total | 218.4 | 5.5 | 223.9 | 176.5 | 1.1 | 177.6 |

The financial commitments for operating lease amounts calculated as a percentage of turnover ("turnover leases") have been based on the minimum payment that is required under the terms of the relevant lease. Under certain turnover 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.

The total of future minimum sublease payments to be received under non-cancellable subleases at 31 March 2006 are as follows:

| | As at 31 March 2006 Land and buildings £m | As at 31 March 2005 Land and buildings £m |
|----------------------------|--|--|
| | Amounts falling due: | |
| Within one year | 0.1 | - |
| Between two and five years | 0.4 | - |
| After five years | 0.9 | - |
| Total | 1.4 | - |

Where rental agreements include a contingent rental, this contingent rent is generally calculated as a percentage of turnover. 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.

23 Capital commitments

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|---------------------------------|---|---------------------------------|
| | Capital commitments contracted but not provided for | |
| - property, plant and equipment | 3.5 | 9.7 |
| - intangible assets | 0.1 | - |
| Total | 3.6 | 9.7 |

Contracted capital commitments represent contracts entered into by the year end and major capital expenditure projects where activity has commenced by the year end relating to property, plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

24 Contingent liabilities

Since 31 March 2005 the following changes to material contingent liabilities have occurred:

The Group had received a claim from the liquidator of Creation Cent Mille SA ("CCM") a former licensee of Burberry Group, seeking to set aside the termination of the licence agreement between Burberry Limited and CCM. During the year this matter was concluded and Burberry made no payment to CCM or the liquidator in respect of this claim.

In 1994 Burberry Limited granted a licence to Safilo to manufacture and sell eyewear. The licence expired on 31 December 2005. Safilo did not accept the terms of a new licence, which Burberry offered it for a period from 1 January 2006. In October 2005, Burberry entered into an eyewear licence with Luxottica for a ten year period from 1 January 2006. Safilo had alleged in correspondence that it had a right of first refusal of any licence for eyewear from 1 January 2006. On the basis of this alleged right Safilo sought a court order requiring disclosure of the licence entered into with Luxottica. Safilo was unsuccessful in this application. Safilo has paid outstanding royalties due under its licence. If Safilo were to make any further claim for damages or otherwise in relation to this matter Burberry will continue to defend any such claim vigorously, which (on legal advice) it considers without merit.

Under the terms of a Demerger Agreement, entered into with GUS plc on 13 December 2005, Burberry continues to participate in the GUS defined benefit scheme. Under this scheme Burberry is jointly and severally liable with the other participating GUS companies for the deficit in this scheme. When Burberry leaves the scheme it will be required to pay an exit charge calculated pursuant to Section 75 of the Pensions Act. GUS plc has agreed to pay to Burberry the amount of this liability to the extent it exceeds £1.25 million.

Other material contingent liabilities reported at 31 March 2005 remain unchanged and were:

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.

Burberry (Spain) S.A. is liable for certain salary and social security contributions left unpaid by its sole contractors where the amounts are attributable to the period in which subcontracting activity is undertaken on behalf of Burberry (Spain) S.A. It is not feasible to estimate the amount of contingent liability, but such expense has been minimal in prior years.

25 Acquisition of subsidiary

On 1 August 2005 the Burberry Group acquired the Burberry trade and certain assets and liabilities ("the Burberry Taiwan acquisition") from Chang's Kent Co. Limited and Ming Pu Co. Limited, which were Burberry distributors in Taiwan.

The Burberry Taiwan acquisition resulted in the acquisition of 12 retail stores and concessions for £5.9m. All assets were recognised at their respective fair values and the residual excess over the net assets acquired is recognised as goodwill in the financial statements. The fair value adjustments contain some provisional amounts which will be finalised by 31 July 2006, principally in relation to amounts payable in terms of the earn out agreement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

| | Book value £m | Fair value adjustments £m | Fair value £m |
|--|------------------|---------------------------------|------------------|
| Net assets acquired | | | |
| Property, plant and equipment | 0.6 | - | 0.6 |
| Stock | 1.6 | (0.1) | 1.5 |
| Trade and other receivables | 0.1 | - | 0.1 |
| Trade and other payables | - | (0.2) | (0.2) |
| | 2.3 | (0.3) | 2.0 |
| Goodwill | | | 3.9 |
| Total consideration | | | 5.9 |
| Satisfied by | | | |
| Cash | | | 3.7 |
| Deferred consideration within one year | | | 1.5 |
| Commission paid in January 2006 | | | 0.3 |
| Direct costs relating to the acquisition | | | 0.4 |
| | | | 5.9 |

The acquired business contributed turnover of £10.9m and attributable profit of £0.6m to the Group for the period from 1 August 2005 to 31 March 2006.

If the acquisition had been completed on 1 April 2005, it is estimated that the impact on the Group turnover for the full year would have been £16.3m, and attributable profit would have been £0.9m.

Goodwill has arisen on the acquisition because of anticipated synergies that do not meet the criteria for recognition as an intangible asset at the date of acquisition.

26 Derivative financial instruments

The Group adopted IAS 32 and IAS 39 with effect from 1 April 2005 and the impact of this is shown in note 3 - Changes in accounting policies and presentation. As a result of adopting these standards on 1 April 2005 no comparatives are shown.

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 exchange contracts. These can be analysed into two categories.

Cash flow hedges

Burberry Group's principal foreign currency denominated transactions arise from royalty income and the sale and purchase of overseas sourced products. In the UK, the Group manages these exposures by the use of Yen and Euro forward exchange contracts for a period of 12 months in advance. In addition, the Group's overseas subsidiaries hedge the foreign currency element of their product purchases on a seasonal basis. This hedging activity involves the use of spot and forward currency instruments.

Fair value hedges

Certain intercompany loan balances are hedged using forward exchange contracts to offset any volatility in foreign currency movements and tax arising thereon. The balances are hedged up to the date of repayment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Derivative financial assets

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Forward foreign exchange contracts - cash flow hedges at beginning of year | - | - |
| Impact of adopting IAS 32 and IAS 39 | 5.8 | - |
| Effect of foreign exchange rate changes | 0.2 | - |
| Arising during the year and taken directly to equity | 2.4 | - |
| Released from equity to the income statement during the year | (6.7) | - |
| Forward foreign exchange contracts - cash flow hedges at end of year | 1.7 | - |
| Forward foreign exchange contracts - held for trading | 0.6 | - |
| Equity swap contracts | 0.5 | - |
| Total current position | 2.8 | - |
| Cash flow hedges expected to be recognised in the year to 31 March 2007 | 1.7 | - |

Derivative financial liabilities

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Forward foreign exchange contracts - cash flow hedges at beginning of year | - | - |
| Impact of adopting IAS 32 and IAS 39 | (1.6) | - |
| Effect of foreign exchange rate changes | (0.2) | - |
| Arising during the year and taken directly to equity | (4.7) | - |
| Released from equity to the income statement during the year | 4.5 | - |
| Forward foreign exchange contracts - cash flow hedges at end of year | (2.0) | - |
| Forward foreign exchange contracts - held for trading | (0.1) | - |
| Total current position | (2.1) | - |
| Cash flow hedges gain expected to be recognised in the year to 31 March 2007 | (2.1) | - |

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|---|---------------------------------|---------------------------------|
| The notional principal amounts of the outstanding forward foreign exchange contracts | 120.4 | - |
| The notional principal amounts of the outstanding equity swap contracts | 3.7 | - |
| The movement on the non-designated hedges for the year recognised within net finance income in the income statement | 0.6 | - |
| The movement on the non-designated hedges for the year recognised within the translation reserve | (0.1) | - |
| Gains and losses on cash flow hedges recognised directly to the hedging reserve within equity | | |
| Gross | (3.8) | - |
| Tax | 1.5 | - |
| Net | (2.3) | - |

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Bank overdrafts and borrowings

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|-----------------|---------------------------------|---------------------------------|
| Unsecured | | |
| Bank overdrafts | 51.2 | - |
| Bank borrowings | 50.0 | - |
| Total | 101.2 | - |

Bank overdrafts represent balances on cash pooling arrangements in the Group. The effective interest rate for the overdraft balances is 5.3% (2005: nil).

A £200m five year multi currency revolving facility was agreed with a syndicate of third party banks commencing on 30 March 2005. At 31 March 2006, the amount drawn down was £50m (2005:nil). This drawdown was made in Sterling. Interest is charged on this loan at LIBOR plus 0.325% per annum and the borrowing matured on 27 April 2006.

28 Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits, external borrowings, redeemable preference shares, deferred consideration, as well as trade debtors and creditors, arising directly from operations.

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

Risk management is carried out by a central treasury department (Group treasury). Burberry Group's treasury department seeks 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. Burberry Group's treasury department 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.

(i) Market Risk

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Burberry Group monitors the desirability of hedging the profits and the net assets of the overseas subsidiaries when translated in to Sterling for reporting purposes. It has not entered into any specific transactions for this purpose.

Burberry Group's income statement is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, Burberry Group has a policy of hedging foreign currency denominated transactions by entering into forward exchange contracts (see note 26). The Group's accounting policy in relation to derivative instruments are set out in note 2.

Price Risk

The Group's exposure to equity securities price risk is minimal. The Group is not exposed to commodity price risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) 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.

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 counter party 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.

(iii) Liquidity Risk

The Group 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, the Group treasury department aims to maintain flexibility in funding by keeping committed credit lines available. For further details of this, see note 27.

(iv) 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 exposes the Group to cash flow interest rate risk.

Currently, this risk is not hedged as the risk is not considered significant. This situation is monitored by the Group treasury department.

(a) Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of Burberry Group's financial assets and financial liabilities:

| | As at 31 March 2006 book and fair value £m | As at 31 March 2005 book and fair value £m |
|---|--|--|
| Primary financial instruments held or issued to finance the Group's operations | | |
| Cash at bank and in hand | 70.2 | 62.4 |
| Short term deposits | 43.5 | 107.5 |
| Total financial assets | 113.7 | 169.9 |
| Interest bearing borrowings | (101.2) | (0.8) |
| Other financial liabilities | (23.9) | (40.2) |
| Total financial liabilities | (125.1) | (41.0) |
| Total net financial investments | (11.4) | 128.9 |

The fair values of the trade receivables and payables are the same as their carrying values.

| | 2006 £m | 2005 £m |
|---|------------|------------|
| Derivative financial instruments held to manage the currency profile | | |
| Forward foreign currency contracts | | |
| - book value | 0.7 | - |
| - fair value | 0.7 | 4.2 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Fair value methods and assumptions

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. The principal assumptions are:

- i) The fair value of short term deposits, borrowings and overdrafts approximates to the carrying amount because of the short maturity of these instruments.
- ii) The fair value of foreign currency contracts is based on a comparison of the contractual and market rates after discounting using the prevailing interest rates at the time.

(b) Interest rate risk profile

Financial assets

The interest rate risk profile of Burberry Group's financial assets by currency is as follows:

| Currency | Cash at bank and in hand £m | Short term deposits £m | Total £m |
|--|--------------------------------------|------------------------------|--------------|
| As at 31 March 2006 | | | |
| Sterling` | 5.5 | 5.0 | 10.5 |
| US dollar | 14.4 | 0.4 | 14.8 |
| Euro | 37.6 | 14.0 | 51.6 |
| Other currencies | 12.7 | 24.1 | 36.8 |
| Total | 70.2 | 43.5 | 113.7 |
| Floating rate assets | 56.4 | 43.5 | 99.9 |
| Balances for which no interest is paid | 13.8 | - | 13.8 |
| As at 31 March 2005 | | | |
| Sterling | 6.4 | 63.0 | 69.4 |
| US dollar | 14.1 | 2.4 | 16.5 |
| Euro | 22.0 | 34.8 | 56.8 |
| Other currencies | 19.9 | 7.3 | 27.2 |
| Total | 62.4 | 107.5 | 169.9 |
| Floating rate assets | 47.7 | 107.5 | 155.2 |
| Balances for which no interest is paid | 14.7 | - | 14.7 |

Floating rate assets earn interest based on the relevant national LIBID equivalents.

Balances for which no interest is paid is made up of Sterling £3.8m (2005: £0.7m), Euros £0.2m (2005: £1.8m) and Hong Kong dollars £2.2m (2005: £5.2m), Singapore dollars £3.3m (2005: £1.9m), Japanese Yen £3.9m (2005: £ 5.1m) and Malaysian Ringgit £0.4m (2005: nil). These amounts arise principally due to the timing of transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Financial liabilities

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

| Currency | Floating rate financial liabilities £m | Financial liabilities on which no interest is payable £m | Total £m |
|----------------------------|---|---|--------------|
| As at 31 March 2006 | | | |
| Sterling | 50.0 | 16.6 | 66.6 |
| US dollar | - | 5.2 | 5.2 |
| Euro | 27.7 | 1.3 | 29.0 |
| Other currencies | 23.5 | 0.8 | 24.3 |
| Total | 101.2 | 23.9 | 125.1 |
| As at 31 March 2005 | | | |
| Sterling | 0.8 | 20.4 | 21.2 |
| US dollar | - | 3.8 | 3.8 |
| Euro | - | 15.7 | 15.7 |
| Other currencies | - | 0.3 | 0.3 |
| Total | 0.8 | 40.2 | 41.0 |

The floating rate financial liabilities at 31 March 2006 and 2005 incurred interest based on relevant national LIBOR equivalents.

The floating rate financial liabilities at 31 March 2006 and 2005 include overdraft balances of £51.2m (2005: £0.8m). In addition, preference shares of a total value of £0.8m were in existence as at 31 March 2005. Refer to note 18 for further details regarding the preference shares.

(c) Maturity of financial liabilities

The maturity profile of the carrying amount of Burberry Group's financial liabilities, other than short term trade creditors and accruals, are as follows:

| | Debt £m | Non-equity shares £m | Deferred consideration £m | Other financial liabilities £m | Total £m |
|---|--------------|-------------------------|------------------------------|-----------------------------------|--------------|
| As at 31 March 2006 | | | | | |
| In one year or less, or on demand | 101.2 | - | 6.5 | 1.9 | 109.6 |
| In more than one year but not more than two years | - | - | 5.0 | 1.8 | 6.8 |
| In more than two years but not more than three years | - | - | - | 1.4 | 1.4 |
| In more than three years but not more than four years | - | - | - | 1.2 | 1.2 |
| In more than four years but not more than five years | - | - | - | 0.9 | 0.9 |
| In more than five years | - | - | - | 5.2 | 5.2 |
| Total | 101.2 | - | 11.5 | 12.4 | 125.1 |
| As at 31 March 2005 | | | | | |
| In one year or less, or on demand | - | - | 22.7 | 2.6 | 25.3 |
| In more than one year but not more than two years | - | - | - | 1.5 | 1.5 |
| In more than two years but not more than three years | - | 0.8 | 10.0 | 0.3 | 11.1 |
| In more than three years but not more than four years | - | - | - | 0.3 | 0.3 |
| In more than four years but not more than five years | - | - | - | 0.4 | 0.4 |
| In more than five years | - | - | - | 2.4 | 2.4 |
| Total | - | 0.8 | 32.7 | 7.5 | 41.0 |

Non-equity shares relate to redeemable preference shares, on which a non-cumulative dividend is paid (see note 18 for further details). All deferred consideration is payable in cash.

Other financial liabilities principally relate to accrued lease liabilities £6.3m (2005: £4.2m), and property related accruals £1.2m (2005: nil) which are included in other creditors falling due after more than one year, and provisions for certain property obligations £2.8m (2005: £2.9m), which are included in provisions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(d) Currency exposures

The tables below show 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 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 taken to the profit and loss account.

| Functional currency of operation | Net foreign currency monetary assets/(liabilities) | | | | Total £m |
|----------------------------------|--|-----------------|------------|---------------------------|-------------|
| | Sterling £m | US dollar £m | Euro £m | Other currencies £m | |
| As at 31 March 2006 | | | | | |
| Sterling | - | 0.3 | 8.6 | (0.1) | 8.8 |
| Other currencies | (1.3) | (0.2) | (0.1) | - | (1.6) |
| Total | (1.3) | 0.1 | 8.5 | (0.1) | 7.2 |
| As at 31 March 2005 | | | | | |
| Sterling | - | 0.3 | - | 0.9 | 1.2 |
| Euro | 0.4 | 0.3 | - | - | 0.7 |
| Other currencies | 4.3 | 2.8 | - | - | 7.1 |
| Total | 4.7 | 3.4 | - | 0.9 | 9.0 |

29 Employee costs

Staff costs, including directors' emoluments, during the year are as shown below. The directors' emoluments are separately disclosed in the "Report on Directors' remuneration and related matters", this includes gains arising on the exercise of share options.

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Wages and salaries | 124.7 | 107.4 |
| Social security costs | 13.9 | 12.4 |
| Share based compensation (all awards settled in shares) | 7.4 | 9.5 |
| Other pension costs (see note 30) | 2.7 | 2.4 |
| Total | 148.7 | 131.7 |

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

| | Year to 31 March 2006 Number of employees | Year to 31 March 2005 Number of employees* |
|---------------|---|--|
| Spain | 917 | 904 |
| Europe | 2,149 | 1,982 |
| North America | 902 | 837 |
| Asia Pacific | 683 | 506 |
| Total | 4,651 | 4,229 |

*Restated to include employees omitted in prior period.

The total compensation paid to key management, defined as the executive and non-executive directors, during the year are as follows:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|----------------------------------|-----------------------------------|-----------------------------------|
| Salaries and short term benefits | 4.3 | 4.0 |
| Post-employment benefits | 0.5 | 0.2 |
| Share based compensation | 3.8 | 5.1 |
| Total | 8.6 | 9.3 |

In addition, aggregate gains on the exercise of options in the year to 31 March 2006 were £8.4m (2005: £6.4m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Share options granted to directors and employees

The share option schemes have been valued using the Black-Scholes option pricing model. The Senior Executive Restricted Share Plan 2004, which has market based performance conditions attached, has been valued using the Black-Scholes pricing model with a discount applied to this value, based on information obtained by running a Monte Carlo simulation model on the scheme.

SAYE share option scheme

A Save As You Earn (SAYE) share option scheme offering GUS plc ordinary shares was introduced for employees in the UK by GUS plc in the year to 31 March 2002, with a further option scheme offered to all UK employees of GUS plc in the year to 31 March 2003. For both of the grants made, employees were entitled to save for either three years or five years.

The options granted in the year to 31 March 2002 are exercisable from 1 May 2004 (three year) and 1 May 2006 (five year) and are dependent on continued employment over the vesting period. The options granted in the year to 31 March 2003 are exercisable from 1 September 2005 (three year) and 1 September 2007 (five year) and are 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 percent discount to market price over the three dealing days preceding the grant date. Three day averages are calculated by taking middle market quotations of a GUS plc share from the London Stock Exchange.

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

| | Weighted average exercise price | Number of shares under option as at 31 March 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | 432.5p | 187,891 | 408.3p | 404,258 |
| Lapsed during the year | 429.5p | (15,119) | 422.0p | (14,389) |
| Exercised during the year | 492.3p | (43,024) | 384.8p | (201,978) |
| Outstanding at 31 March | 413.0p | 129,748 | 432.5p | 187,891 |
| Exercisable at 31 March | - | - | - | - |

SAYE share options in GUS plc shares outstanding at the end of the year have the following expiry date and exercise prices:

| Option term | Exercise price | Number of shares under option as at 31 March 2006 | Number of shares under option as at 31 March 2005 |
|-----------------------------------|----------------|---|---|
| 5 July 2002 - 28 February 2006 | 523.0p | - | 36,184 |
| 9 February 2001 - 31 October 2006 | 384.0p | 102,723 | 122,406 |
| 5 July 2002 - 29 February 2008 | 523.0p | 27,025 | 29,301 |
| Total | | 129,748 | 187,891 |

The administrative costs of this scheme have not been borne by Burberry Group and are not considered to be material.

As a result of the demerger from GUS plc on 13 December 2005, the employees who held options at this date as part of the GUS SAYE share option scheme have six months from the date of the demerger to exercise these options.

Share options and awards

i) GUS schemes

Share options have been granted to Burberry employees under the GUS 1998 Approved and Non-Approved Executive Share Option Schemes during the years to 31 March 2001 and 2002 in respect of the ordinary shares of GUS plc.

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options awarded in the year to 31 March 2001 were exercisable from 7 April 2003. The options awarded in the year to 31 March 2002 were exercisable from 11 June 2004. These options have a non-market performance condition attached. The options may be exercised if GUS adjusted earnings per share over a period of three consecutive financial years have increased by an average of at least four percent per annum more than the growth in the Retail Prices Index. The period of assessment commences at the beginning of the financial year of grant.

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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | 595.2p | 500,007 | 608.5p | 1,328,829 |
| Lapsed during the year | - | - | 635.0p | (119,624) |
| Exercised during the year | 580.9p | (299,564) | 613.4p | (709,198) |
| Outstanding at 31 March | 616.6p | 200,443 | 595.2p | 500,007 |
| Exercisable at 31 March | 616.6p | 200,443 | 595.2p | 500,007 |

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

| Option term | Exercise price | Number of shares under option as at 31 March 2006 | Number of shares under option as at 31 March 2005 |
|-------------------------------------|----------------|---|---|
| 7 April 2000 - 7 April 2010 | 375.7p | - | 40,458 |
| 11 June 2001 - 11 June 2011 | 612.7p | 165,799 | 421,717 |
| 17 December 2001 - 17 December 2011 | 635.0p | 34,644 | 37,832 |
| Total | | 200,443 | 500,007 |

As a result of the demerger from GUS plc on 13 December 2005, the employees who held options at this date as part of the GUS share option scheme have six months from the date of the demerger to exercise these options.

ii) The Burberry IPO Senior Executive Restricted Share Plan (the 'RSP')

On 11 July 2002 awards in respect of a total of 8,100,198 Ordinary Shares were made to directors and senior management under the RSP.

The restricted shares vest in three stages, 50 percent are exercisable after three years, 25 percent are exercisable after four years and 25 percent are exercisable after five years. The vesting of these share options is dependent on continued employment over the vesting period.

Obligations under this plan may 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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | Nil | 6,571,640 | Nil | 7,718,894 |
| Granted during the year | Nil | - | Nil | 231,640 |
| Lapsed during the year | Nil | (911,640) | Nil | (343,894) |
| Exercised during the year | Nil | (2,050,000) | Nil | (1,035,000) |
| Outstanding at 31 March | Nil | 3,610,000 | Nil | 6,571,640 |
| Exercisable at 31 March | Nil | 12,499 | Nil | - |

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2006 | Number of shares under option as at 31 March 2005 |
|-------------------------------|----------------|---|---|
| 11 July 2002 - 11 July 2012 | Nil | 3,610,000 | 6,340,000 |
| 2 August 2004 - 2 August 2014 | Nil | - | 231,640 |
| Total | | 3,610,000 | 6,571,640 |

Equity swaps have been entered into to cover future employer's National Insurance liability (or overseas equivalent) that may arise in respect of this plan.

iii) Burberry Senior Executive Restricted Share Plan 2004

On 21 July 2005 awards in respect of a total of 1,904,732 (2005: 1,367,592) Ordinary Shares were made to directors and senior management under the 2004 RSP.

The options vest in three stages, 50 percent are exercisable after three years, 25 percent are exercisable after four years and 25 percent are exercisable after five years. The vesting of these share options is dependent on two performance conditions. Vesting of RSP shares is based 50 percent on Burberry's three year total Shareholder return (TSR) relative to peers and 50 percent 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 15 percent per annum profit growth, and the executive remains in employment with Burberry for at least five years. A proportion of an award (12.5%) may vest if TSR performance exceeds the median of the peer group or if PBT growth exceeds five percent per annum over three years. The vesting of these share options is also dependent on continued employment over the vesting period.

An additional grant in respect of 508,474 (2005: nil) Ordinary Shares was made to Angela Ahrendts on 31 January 2006.

These options vest in three stages, 50 percent are exercisable after three years, 25 percent are exercisable after four years and 25 percent are exercisable after five years. The performance conditions attached with this award are the same as those attached to previous awards under this scheme; however, the performance period for this award is only two years.

Shares have been purchased by the Burberry Group plc ESOP Trust to meet obligations under this plan. 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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | Nil | 1,342,592 | - | - |
| Granted during the year | Nil | 2,413,206 | Nil | 1,367,592 |
| Lapsed during the year | Nil | (190,321) | Nil | (25,000) |
| Outstanding at 31 March | Nil | 3,565,477 | Nil | 1,342,592 |
| Exercisable at 31 March | | - | | - |

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 2006 | Exercise price | Number of shares under option as at 31 March 2005 |
|-----------------------------------|----------------|---|----------------|---|
| 2 August 2004 - 2 August 2014 | Nil | 1,322,592 | Nil | 1,342,592 |
| 21 July 2005 - 21 July 2015 | Nil | 1,734,411 | - | - |
| 31 January 2006 - 31 January 2016 | Nil | 508,474 | - | - |
| Total | Nil | 3,565,477 | Nil | 1,342,592 |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Equity swaps have been entered into to cover future Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme.

For the new awards made on 21 July 2005, the fair value for those restricted shares with the profit before tax performance condition was determined as £4.27 by applying the Black-Scholes option pricing model. A discount was applied to the restricted shares with the total shareholder return performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined to be £1.46.

For the new awards made on 31 January 2006, the fair value for those restricted shares with the profile before tax performance conditions was determined as £4.34 by applying the Black-Scholes option - price model. A discount was applied to the restricted shares with the total Shareholder return performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined to be £1.82.

As dividends accrue during the vesting period, expected dividends were not incorporated into the measurement of fair value. The key factors used in determining the fair value of the options were as follows:

| | 21 July 2005 | 31 January 2006 |
|--|------------------------------|------------------------------|
| Weighted average share price at grant date | £4.27 | £4.34 |
| Exercise price | - | - |
| Option life | Equivalent to vesting period | Equivalent to vesting period |
| Expected volatility | 28.5% | 29.4% |
| Risk free interest rate | 4.3% | 4.2% |

Expected volatility was determined by calculating the historic annualised standard deviation of the continuously compounded rates of return on the shares over a period of time, prior to the grant, equivalent to the life of the option. As share price information was only available for Burberry Group plc from July 2002 an average of a comparator group of companies was used prior to this date. The average expected volatility over the life of the option was used.

iv) Burberry Restricted Share Reinvestment Plan

On 21 July 2005 awards in respect of a total of 782,500 (2004: nil) Ordinary Shares were made to senior management under the Restricted Share Reinvestment Plan.

The options vest in two stages, 50 percent are exercisable after three years and 50 percent are exercisable after four years. The vesting of these share options is dependent on the employee holding the original IPO RSP shares which were awarded and which vested on 11 July 2005. The vesting of these share options is also dependent on continued employment over the vesting period.

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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|--|---|--|---|
| Outstanding at 1 April | - | - | - | - |
| Granted during the year | Nil | 782,500 | - | - |
| Outstanding at 31 March | Nil | 782,500 | - | - |
| Exercisable at 31 March | - | - | - | - |

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

| Option term | Exercise Price | Number of shares under option as at 31 March 2006 | Exercise price | Number of shares under option as at 31 March 2005 |
|-----------------------------|-------------------|---|-------------------|---|
| 21 July 2005 - 21 July 2015 | Nil | 782,500 | - | - |
| Total | - | 782,500 | - | - |

Equity swaps have been entered into to cover future Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the new awards made during the year to 31 March 2006, the fair value was determined as £4.27 by applying the Black-Scholes option pricing model. As dividends accrue during the vesting period, expected dividends were not incorporated into the measurement of fair value. The key factors used in determining the fair value of the options were as follows:

| | |
|--|------------------------------|
| Weighted average share price at grant date | £4.27 |
| Exercise price | - |
| Option life | Equivalent to vesting period |
| Expected volatility | 27.8% |
| Risk free interest rate | 4.2% |

Expected volatility was determined by calculating the historical annualised standard deviation of the continuously compounded rates of return on the shares over a period of time, prior to the grant, equivalent to the life of the option. As share price information was only available for Burberry Group plc from July 2002 an average of a comparator group of companies was used prior to this date. The average expected volatility over the life of the option was used.

v) The Burberry Senior Executive IPO Share Option Scheme ("the IPO Option Scheme")

On 11 July 2002 awards in respect of a total of 5,955,198 Ordinary Shares were made to directors and senior management under the IPO Option Scheme. Participants' awards were made in the form of options with an exercise price equal to the price on flotation, £2.30 per Ordinary Share.

The options vest in three stages, 33 percent are exercisable after one year, 33 percent are exercisable after two years and 33 percent are exercisable after three years. The vesting of these share options is dependent on continued employment over the vesting period. Obligations under this scheme may 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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | 230.0p | 2,456,683 | 230.0 p | 4,465,998 |
| Lapsed during the year | - | - | 230.0 p | (102,966) |
| Exercised during the year | 230.0p | (1,614,178) | 230.0 p | (1,906,349) |
| Outstanding at 31 March | 230.0p | 842,505 | 230.0 p | 2,456,683 |
| Exercisable at 31 March | 230.0p | 842,505 | 230.0 p | 728,351 |

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 2006 | Number of shares under option as at 31 March 2005 |
|-----------------------------|----------------|---|---|
| 11 July 2002 - 11 July 2012 | 230.0p | 842,505 | 2,456,683 |
| Total | | 842,505 | 2,456,683 |

Equity swaps have been entered into to cover future employer's National Insurance liability (or overseas equivalent) that may arise in respect of this plan.

vi) The Burberry Group plc Executive Share Option Scheme 2002

During the year ended 31 March 2006 options were granted to a director in respect of Ordinary Shares in the Company under the Executive Share Option Scheme. A total of 833,333 (2005: 2,002,290) options were awarded to a director at an exercise price of £4.23 (2004: £3.78).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The options vest in three stages, 33 percent are exercisable after one year, 33 percent are exercisable after two years and 33 percent are exercisable after three years. The vesting of these share options is dependent on continued employment over the vesting period.

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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | 315.4p | 4,183,378 | 258.0p | 2,939,033 |
| Granted during the year | 423.0p | 833,333 | 378.0p | 2,002,290 |
| Lapsed during the year | 361.7p | (221,091) | 258.0p | (75,132) |
| Exercised during the year | 274.8p | (860,128) | 258.0p | (682,813) |
| Outstanding at 31 March | 342.0p | 3,935,492 | 315.4p | 4,183,378 |
| Exercisable at 31 March | 320.0p | 1,093,276 | 258.0p | 334,197 |

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 2006 | Number of shares under option as at 31 March 2005 |
|-------------------------------|----------------|---|---|
| 13 June 2003 - 12 June 2013 | 258.0p | 1,411,509 | 2,181,088 |
| 2 August 2004 - 2 August 2014 | 378.0p | 1,690,650 | 2,002,290 |
| 21 July 2005 - 21 July 2015 | 423.0p | 833,333 | - |
| Total | | 3,935,492 | 4,183,378 |

Equity swaps have been entered into to cover future Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme.

For the new awards made during the year to 31 March 2006, the weighted average fair value was determined as £1.16 by applying the Black-Scholes option pricing model. As dividends accrue during the vesting period, expected dividends were not incorporated into the measurement of fair value. The key factors used in determining the fair values of the options were as follows:

| | |
|--|-----------------------|
| Weighted average share price at grant date | £4.27 |
| Exercise price | £4.23 |
| Option life | 2 years after vesting |
| Expected volatility | 24.8% |
| Expected dividends | - |
| Risk free interest rate | 4.2% |

Expected volatility was determined by calculating the historic annualised standard deviation of the continuously compounded rates of return on the shares over a period of time, prior to the grant, equivalent to the life of the option. As share price information was only available for Burberry Group plc from July 2002 an average of a comparator group of companies was used prior to this date. The average expected volatility over the life of the option was used.

vii) All Employee Share Plan

During the year to 31 March 2006, all employees were offered 369,240 (2005: 471,050) Ordinary Shares in the Company with options over the awards at a nil exercise price under an all Employee Share Plan.

All awards vest after three years and the vesting of these share options is dependent on continued employment over the vesting period.

These Ordinary Shares are held in two trusts, being the Burberry Group Share Incentive Plan and the Burberry Group plc ESOP Trust. The Ordinary Shares must be held in trust between three and five years.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | Nil | 1,029,100 | Nil | 717,791 |
| Granted during the year | Nil | 369,240 | Nil | 471,050 |
| Lapsed during the year | Nil | (143,040) | Nil | (133,252) |
| Exercised during the year | Nil | (237,720) | Nil | (26,489) |
| Outstanding at 31 March | Nil | 1,017,580 | Nil | 1,029,100 |
| Exercisable at 31 March | Nil | 52,650 | Nil | - |

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 2006 | Number of shares under option as at 31 March 2005 |
|----------------------------------|----------------|---|---|
| 12 July 2002 - 18 July 2082* | Nil | 52,650 | 105,850 |
| 12 July 2002 - 19 October 2005 | Nil | - | 176,700 |
| 30 August 2003 - 18 July 2082* | Nil | 101,350 | 119,750 |
| 30 August 2003 - 7 October 2006 | Nil | 174,800 | 202,650 |
| 30 July 2004 - 30 October 2007 | Nil | 212,650 | 252,400 |
| 20 August 2004 - 18 July 2082* | Nil | 148,250 | 171,750 |
| 10 June 2005 - 10 June 2008 | Nil | 200,720 | - |
| 1 September 2005 - 18 July 2082* | Nil | 127,160 | - |
| Total | | 1,017,580 | 1,029,100 |

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

Equity swaps have been entered into to cover future Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme.

For the new awards made during the year to 31 March 2006, the weighted average fair value was determined as £4.16 by applying the Black-Scholes option pricing model. As dividends accrue during the vesting period, expected dividends were not incorporated into the measurement of fair value. The key factors used in determining the fair value of the options were as follows:

| | |
|--|---------|
| Weighted average share price at grant date | £4.16 |
| Exercise price | - |
| Option life | 3 years |
| Expected volatility | 26.1% |
| Risk free interest rate | 4.2% |

Expected volatility was determined by calculating the historic annualised standard deviation of the continuously compounded rates of return on the shares over a period of time, prior to the grant, equivalent to the life of the option. As share price information was only available for Burberry Group plc from July 2002 an average of a comparator group of companies was used prior to this date. The average expected volatility over the life of the option was used.

viii) Co-investment Scheme

During the year to 31 March 2006, awards were made under this plan in respect of 984,473 (2005: 221,703) Ordinary Shares in the Company. The options are exercisable after three years and are dependent on continued employment during the vesting period.

Shares have been purchased by the Burberry Group plc ESOP Trust to meet the obligations under this plan.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 2006 | Weighted average exercise price | Number of shares under option as at 31 March 2005 |
|--------------------------------|---------------------------------|---|---------------------------------|---|
| Outstanding at 1 April | Nil | 221,703 | - | - |
| Granted during the year | Nil | 984,473 | Nil | 221,703 |
| Lapsed during the year | Nil | (131,654) | - | - |
| Outstanding at 31 March | Nil | 1,074,522 | Nil | 221,703 |
| Exercisable at 31 March | - | - | - | - |

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

| Option term | Exercise price | Number of shares under option as at 31 March 2006 | Exercise price | Number of shares under option as at 31 March 2005 |
|-----------------------------|----------------|---|----------------|---|
| 29 July 2004 - 29 July 2009 | Nil | 213,996 | Nil | 221,703 |
| 21 July 2005 - 21 July 2015 | Nil | 860,526 | - | - |
| Total | Nil | 1,074,522 | Nil | 221,703 |

Equity swaps have been entered into to cover future Employer's National Insurance liability (or overseas equivalent) that may arise in respect of this scheme.

For the new awards made during the year to 31 March 2006, the weighted average fair value was determined as £4.27 by applying the Black-Scholes option pricing model. As dividends accrue during the vesting period, expected dividends were not incorporated into the measurement of fair value. The key factors used in determining the fair value of the options were as follows:

| | |
|--|---------|
| Weighted average share price at grant date | £4.27 |
| Exercise price | - |
| Option life | 3 years |
| Expected volatility | 26.8% |
| Risk free interest rate | 4.2% |

Expected volatility was determined by calculating the historic annualised standard deviation of the continuously compounded rates of return on the shares over a period of time, prior to the grant, equivalent to the life of the option. As share price information was only available for Burberry Group plc from July 2002 an average of a comparator group of companies was used prior to this date. The average expected volatility over the life of the option was used.

30 Retirement benefit obligations

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

The balance sheet obligations in respect of Burberry Group's post-retirement arrangements, assessed in accordance with IAS 19, were:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------|---------------------------|
| Defined benefit schemes | | |
| GUS defined benefit scheme UK | - | 1.0 |
| Supplemental executive retirement plan US* | 1.4 | 0.9 |
| Retirement indemnities France | 0.2 | 0.2 |
| Burberry (Taiwan) Co Ltd retirement scheme | 0.2 | - |
| Total obligation | 1.8 | 2.1 |

*The plans in the US are classified as defined benefit schemes under IAS 19 because their exact cost cannot be quantified as the funds are subject to notional indexation according to specified investment return indices.

NOTES TO THE FINANCIAL STATEMENTS (continued)

No prepayments or obligations in respect of defined contributions schemes were outstanding at 31 March 2006 (2005: nil).

The pension costs charged to the income statement in respect of the main plans were:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Defined benefit schemes | | |
| GUS defined benefit scheme UK | 0.4 | 0.7 |
| Supplemental executive retirement plan US | 0.3 | 0.3 |
| Defined contribution schemes | | |
| GUS money purchase pension plan UK | 1.0 | 0.7 |
| Burberry money purchase plan US | 0.9 | 0.6 |
| Burberry Asia Limited retirement scheme | 0.1 | 0.1 |
| Total pension costs | 2.7 | 2.4 |

Defined benefit schemes

GUS defined benefit scheme UK

Prior to the demerger of Burberry from GUS plc on 13 December 2005, it was agreed that existing employees of Burberry Group who were participating in the GUS defined benefit scheme (the 'GUS Pension Scheme') would continue to do so until 31 December 2007 or such earlier date as required by HM Customs & Revenue or by Burberry. When the eventual withdrawal of members of the Burberry Group from the GUS Pension Scheme takes place on or before 31 December 2007, Burberry must pay any liabilities due under section 75 or 75A of the Pensions Act 1995. GUS has indemnified Burberry on an after tax basis against any amounts which are in excess of £1.25m.

The following disclosures regarding the GUS defined benefit scheme UK have been included for completeness as required by IAS 19 and the assets have been restricted in accordance with the standard as it is not likely that Burberry will be able to benefit from this surplus.

The GUS Pension Scheme has rules which specify the benefits to be paid and is financed accordingly, with assets being held in independently administered funds.

A full actuarial valuation of the GUS Pension Scheme is carried out every three years with interim reviews in the intervening years. The last full valuation was carried out as at 31 March 2004 by independent qualified actuaries, Watson Wyatt Limited, using the projected unit method.

As a result of the 31 March 2004, valuation it became possible to separately identify the underlying assets and liabilities which relate to the Burberry Group. Therefore, since the valuation, Burberry Group has accounted for its proportionate share of the overall defined benefit obligation, scheme assets and costs.

The valuation of the GUS Pension Scheme used for Burberry Group's IAS 19 disclosures for the year to 31 March 2006 has been based on an update of the 31 March 2004 valuation. As at 31 March 2006, this update showed that there was an excess in the value of the assets of the GUS Pension Scheme, when compared to the value of the liabilities, on the basis set out below. The overall excess was approximately £22.2m as at 31 March 2006 (2005: deficit £6.6m) before allowing for deferred tax. Burberry Group's proportionate share of this excess was approximately £1.8m (2005: deficit £1.0m) before allowing for deferred tax. This surplus has been restricted as explained above.

Burberry Group's disclosures in respect of its continued participation in the GUS Pension Scheme are shown below. The disclosures are in accordance with IAS 19 and recognise all gains/losses immediately through a Group Statement of Recognised Income and Expense (SORIE).

NOTES TO THE FINANCIAL STATEMENTS (continued)

The valuation assumptions

The principal actuarial assumptions used in the IAS 19 valuation of the Burberry Group portion of the GUS Pension Scheme are the same as those used for the whole of the GUS Pension Scheme and are shown below:

| | Year to 31 March 2006 % | Year to 31 March 2005 % |
|---|----------------------------------|----------------------------------|
| Discount rate | 4.9 | 5.4 |
| Rate of inflation | 2.9 | 2.9 |
| Rate of salary increases | 4.7 | 4.7 |
| Rate of increases for pensions in payment and deferred pensions | 2.9 | 2.9 |
| Expected return on plan assets | 6.8 | 7.0 |

The expected return on plan assets is calculated by reference to the GUS Pension Scheme investments at the year end and is a weighted average of the expected returns on each main asset type (based on the market yields available on these asset types at the year end). The main asset types held by the GUS Pension Scheme (expressed as a percentage of total assets) and their expected returns are as follows:

| | Asset allocation at 31 March 2006 % | Expected return for the next year % | Asset allocation at 31 March 2005 % | Expected return for the next year % |
|--|---|--|---|--|
| Equities | 67 | 7.9 | 67 | 8.0 |
| Fixed and index linked income securities | 30 | 4.6 | 31 | 5.1 |
| Other | 3 | 3.7 | 2 | 3.7 |
| Total | 100 | 6.8 | 100 | 7.0 |

The IAS 19 valuation assumes mortality will be in line with standard tables known as PMA92C2004 for males and PFA92C2004 for females. An allowance is also made for anticipated future improvements in life expectancy, by assuming that the probability of death occurring at each age will decrease by 0.25% each year. Overall, the average expectation of life on retirement in normal health is assumed to be:

- 18.9 years at age 65 for a male currently aged 65;
- 22.0 years at age 65 for a female currently aged 65;
- 19.6 years at age 65 for a male currently aged 50; and
- 22.9 years at age 65 for a female currently aged 50.

Based on the method and assumptions outlined above, the amount recognised in Burberry Group's balance sheet is determined as follows:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Present value of Burberry Group's share of scheme's liabilities (the defined benefit obligation) | (39.4) | (35.0) |
| Market value of Burberry Group's share of scheme's assets | 41.2 | 34.0 |
| Net asset/(liabilities) | 1.8 | (1.0) |
| Restricted recognition of assets | (1.8) | - |
| Net assets/(liabilities) recognised in the balance sheet | - | (1.0) |

NOTES TO THE FINANCIAL STATEMENTS (continued)

Amounts for the current and previous two periods are as follows:

| | As at 31 March 2006 £m | As at 31 March 2005 £m | As at 31 March 2004 £m |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Defined benefit obligation | (39.4) | (35.0) | (30.9) |
| Market value of assets | 41.2 | 34.0 | 29.4 |
| Surplus/(deficit) | 1.8 | (1.0) | (1.5) |
| Restricted recognition of assets | (1.8) | - | - |
| Surplus/(deficit) recognised | - | (1.0) | (1.5) |
| Experience adjustments on liabilities | (3.3) | (2.9) | (2.0) |
| Experience adjustments on assets | 5.8 | 1.4 | 3.8 |

The amount recognised in the income statement are as follows:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Current service cost (included in net operating costs) | (0.9) | (0.9) |
| Interest cost (included in net finance income) | (1.8) | (1.7) |
| Expected return on plan assets (included in net finance income) | 2.3 | 1.9 |
| Total included within employee costs | (0.4) | (0.7) |

The amount recognised in the Group Statement of Recognised Income and Expense (SORIE) is as follows:

| | Year to 31 March 2006 £m | Year to 31 March 2005 £m |
|---|-----------------------------------|-----------------------------------|
| Loss on liabilities | (3.3) | (2.9) |
| Gain on assets | 5.8 | 1.4 |
| Total gain/(loss) | 2.5 | (1.5) |
| Restricted recognition of assets | (1.8) | - |
| Total gain/(loss) included in statement of recognised income and expense in year | 0.7 | (1.5) |
| Cumulative actuarial gain included in statement of recognised income and expense | 1.0 | 0.3 |

Changes in the present value of the defined benefit obligation are as follows:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|---|---------------------------------|---------------------------------|
| Opening defined benefit obligation | (35.0) | (30.9) |
| Current service cost | (0.9) | (0.9) |
| Interest cost | (1.8) | (1.7) |
| Employee contributions | (0.2) | (0.2) |
| Actuarial gain/(loss) on liabilities | (3.3) | (2.9) |
| Benefits paid | 1.8 | 1.6 |
| Closing defined benefit obligation | (39.4) | (35.0) |

Changes in the fair value of the plan assets are as follows:

| | As at 31 March 2006 £m | As at 31 March 2005 £m |
|--|---------------------------------|---------------------------------|
| Opening fair value of plan assets | 34.0 | 29.4 |
| Expected return | 2.3 | 1.9 |
| Actuarial gain on assets | 5.8 | 1.4 |
| Contributions paid by employer | 0.7 | 2.7 |
| Contributions paid by employee | 0.2 | 0.2 |
| Benefits paid | (1.8) | (1.6) |
| Closing fair value of plan assets | 41.2 | 34.0 |

The actual return on the plan assets in the year to 31 March 2006 was £8.1m (2005: £3.3m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

Burberry Group's total contributions to the GUS Pension Scheme during the year ended 31 March 2006 were £0.7m (2005: £2.7m). The group expects to contribute £0.7m in the year to 31 March 2007.

Supplemental executive retirement plan US

Rose Marie Bravo is entitled to these plans as explained in the "Report on Directors' remuneration and related matters". Payments are made into the Supplemental executive retirement plan based on a percentage of salary and benefits. Interest is earned on the scheme at a rate of 4.6% (2005: 4.4%).

Retirement indemnities France

Burberry France S.A. 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 Burberry 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 Burberry Group companies in relation to this commitment.

Starting from 1 August 2005, all employees of the company join the defined contribution scheme operated under local labour ordinance.

Defined contribution schemes

GUS money purchase pension plan UK

This scheme was introduced during the year ended 31 March 1999 with the aim of providing pension benefits for those GUS group employees in the UK who, hitherto, had been ineligible for GUS defined benefit pension scheme membership. The assets of this scheme are held separately from those of GUS plc in an independently administered fund.

Burberry money purchase plan US

Burberry 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 Burberry Group in an independently administered fund.

Burberry Asia Limited retirement scheme

Burberry 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 Burberry Group in an independently administered fund.

31 Related party transactions

GUS plc and other GUS related companies were related parties of the Burberry Group until 12 December 2005 as GUS plc owned the majority shareholding in Burberry Group plc. On 13 December 2005 Burberry Group demerged from GUS plc, services provided since this date have been done so in accordance with the Demerger agreement. Set out below are the transactions undertaken prior to 13 December 2005.

(a) Trading transactions and balances arising in the normal course of business

The following purchases and balances have arisen from transactions between Burberry Group and GUS related companies. The services purchased by Burberry Group include treasury and cash management, tax management, insurance and insurance management, pension, human resources, employee benefit administration, vehicle hire, property advice, marketing services, credit references, distribution and warehouse facilities, and certain internal audit support.

NOTES TO THE FINANCIAL STATEMENTS (continued)

| Related party | Related party's relationship until 13 December 2005 | Purchases from GUS related companies for the year to 31 March | |
|---------------------------------------|--|---|------------|
| | | 2006 £m | 2005 £m |
| Purchases from related parties | | | |
| GUS plc and related companies | Ultimate parent company | 1.8 | 2.4 |
| Total | | 1.8 | 2.4 |

| Related party | Related party's relationship until 13 December 2005 | Amounts due to GUS related companies as at 31 March | |
|--------------------------------|--|---|------------|
| | | 2006 £m | 2005 £m |
| Related party creditors | | | |
| GUS plc and related companies | Ultimate parent company | - | 6.8 |
| Total | | - | 6.8 |

(b) Funding transactions and balances arising in the normal course of business

Amounts have been deposited with GUS group companies in accordance with Burberry's counterparty risk policy during the year. No amounts were deposited with GUS at 31 March 2006 (2005: £18.3m).

In addition forward currency contracts have been undertaken with GUS related companies during the year, which have been subject to Burberry's counterparty risk policy. No such hedges were outstanding as at 31 March 2006 (2005: £0.5m).

(c) Share repurchase programme

As part of the Share repurchase programme, 13,063,825 Ordinary Shares were purchased by the Company from GUS, representing a total cost, including expenses, of £52.2m. All of Ordinary Shares purchased have been cancelled. In addition, 570,030 Ordinary Shares purchased in the year to 31 March 2005 were cancelled in the current year.

32 Transition to IFRS

For all periods up to and including the year to 31 March 2005 the Burberry Group has prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). For the year to 31 March 2006 the Burberry Group is required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Commission.

The Group's transition date to IFRS is 1 April 2004. This has been determined in accordance with IFRS 1 "First Time Adoption of International Financial Reporting Standards", being the start of the earliest period of comparative information.

IFRS 1 allowed an entity to produce comparative information which does not comply with IAS 32 and IAS 39. The Group has taken advantage of this exemption and has adopted IAS 32 and IAS 39 with effect from 1 April 2005. The reconciliations shown below do not include the impact of adopting IAS 32 and IAS 39. The impact of adopting these standards is shown in note 3 - Changes in accounting policies and presentation.

To explain the change to IFRS, a reconciliation has been provided of the equity at 1 April 2004 and 31 March 2005 and the net income for the year to 31 March 2005 from the previously published consolidated financial statements, prepared in accordance with UK GAAP to the accompanying consolidated financial statements prepared in accordance with IFRS. An explanation of the principle adjustments required by Burberry Group on conversion to IFRS are set out below. This information had been extracted from the 'Burberry Group plc financial results under IFRS' as published by the Group on 10 June 2005, which is available on the Group's website (www.burberryplc.com). Since June 2005, IFRS have been subject to ongoing review and further clarification. The principal amendments since June 2005 have been in relation to IAS 12, IAS 38 and Technical Correction 1. The impact on profit before taxation as a result of these amendments is £0.7m.

NOTES TO THE FINANCIAL STATEMENTS (continued)

There have been no material adjustments to the cash flow statement.

Attributable profit reconciliation between UK GAAP and IFRS:

| | Year to 31 March 2005 £m |
|---------------------------------------|-----------------------------------|
| Attributable profit under UK GAAP | 109.9 |
| Share based payments | (5.1) |
| Goodwill no longer amortised | 6.8 |
| Deferred tax remeasurement | 0.3 |
| Attributable profit under IFRS | 111.9 |

Equity reconciliation between UK GAAP and IFRS:

| | As at 31 March 2005 £m | As at 1 April 2004 £m |
|--|---------------------------------|--------------------------------|
| Shareholders' equity under UK GAAP | 454.6 | 429.4 |
| Share based payments | 0.7 | 0.7 |
| Goodwill no longer amortised | 6.8 | - |
| Deferred tax remeasurement | (11.4) | (12.6) |
| Dividends | 21.7 | 14.9 |
| Other | (0.1) | (0.2) |
| Shareholders' equity under IFRS | 472.3 | 432.2 |

The significant differences between UK GAAP and IFRS which affect the Group are as follows:

a) Share based payments

Under UK GAAP, the cost of equity settled transactions were recognised in the year of performance to which the scheme related. The charge was recognised based on the fair market value of the share award at the date of grant, less any consideration receivable from the participating Burberry employee.

Under IFRS equity settled transaction charges are recognised from the date of grant over the vesting period of the shares. The total charge is determined with reference to the fair value of the equity instruments awarded at the date of grant. The fair value at the date of grant has been determined using the Black-Scholes Option Pricing Model.

Where awards are contingent upon future events an assessment of the likelihood of these conditions being achieved is made at the time of the award.

b) Goodwill no longer amortised

Under UK GAAP, goodwill was capitalised and amortised over its estimated useful economic life.

Under IFRS, goodwill has been assigned an indefinite life as at the date of transition and it is no longer amortised. Burberry has elected to apply the exemption related to Business Combinations and has frozen its goodwill at its carrying value as at 1 April 2004. All accumulated amortisation at this point in time has been reclassified against the cost of the goodwill. Impairment reviews will be carried out on goodwill on an annual basis and any impairment charge would be charged and if applicable reported as a material item.

c) Deferred taxation remeasurement

Under UK GAAP, deferred tax was recognised for all timing differences, being the difference between an entity's taxable profits and its statutory results, which are expected to reverse.

Deferred tax under IAS 12 "Income Taxes" is recognised on all taxable temporary differences and all deductible temporary differences and unused tax losses, to the extent that there are sufficient taxable profits

NOTES TO THE FINANCIAL STATEMENTS (continued)

available in future periods. Temporary differences are the difference between the tax base of an asset/liability and its carrying amount in the financial statements.

The most significant difference between IFRS and UK GAAP is that deferred tax is now recognised on the revaluation of fixed assets.

d) Dividends

Under UK GAAP, proposed dividends are recorded as a liability at the balance sheet date.

Under IFRS, dividends proposed at the balance sheet date are only recorded as a liability when the Shareholders have approved their distribution or for the interim dividend when it has been paid. The recognition of the charge in the income statement in relation to dividends does not affect the timing of the payment of dividends or Burberry's dividend policy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Principal subsidiaries

| Company | Country of incorporation | Nature of business |
|---|---------------------------------|--|
| Spain | | |
| Burberry (Spain) S.A. | Spain | Luxury goods wholesaler |
| Burberry (Spain) Retail S.L. | Spain | Luxury goods retailer |
| Mercader y Casadevall S.A. | Spain | Luxury goods retailer |
| Europe | | |
| Burberry Limited | UK | Luxury goods retailer, wholesaler and licensor |
| Burberry Italy Retail Limited | UK | Luxury goods retailer |
| The Scotch House Limited* | UK | Luxury goods brand and licensor |
| Woodrow-Universal Limited* | UK | Textile manufacturer |
| Burberry France S.A. | France | Luxury goods retailer and wholesaler |
| Burberry (Suisse) S.A.* | Switzerland | Luxury goods retailer |
| Burberry Italy SRL* | Italy | Luxury goods wholesaler |
| Burberry (Deutschland) GmbH | Germany | Luxury goods retailer and wholesaler |
| Burberry Holdings GmbH | Austria | Luxury goods retailer |
| North America | | |
| Burberry Limited | USA | Luxury goods retailer |
| Burberry (Wholesale) Limited | USA | Luxury goods wholesaler |
| Asia Pacific | | |
| Burberry Asia Ltd | 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 Ltd | Korea | Luxury goods retailer and wholesaler |
| Burberry (Taiwan) Co Ltd | Taiwan | Luxury goods retailer |
| Burberry (Malaysia) Sdn Bhd | Malaysia | Luxury goods retailer |
| Burberry Japan KK | Japan | Luxury goods retailer, wholesaler and licensor |

*Held directly by Burberry Group plc.

All principal subsidiary undertakings are wholly owned as at 31 March 2006 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 2006. Non-operating intermediate holding and financing companies are excluded from the list above.

Up to 12 December 2005 Burberry Group plc, which is the ultimate parent undertaking as at 31 March 2006, was 65 percent owned by GUS Holdings Limited, a subsidiary of GUS plc, which is registered in England and Wales. Prior to 12 December 2005 the ultimate parent undertaking and controlling party was GUS plc.

FIVE YEAR SUMMARY

| | 2002* UK GAAP (Pro forma) £m | 2003* UK GAAP £m | 2004 UK GAAP £m | 2005 UK GAAP £m | 2005 IFRS £m | 2006 IFRS £m |
|---|---------------------------------------|------------------------|-----------------------|-----------------------|--------------------|--------------------|
| Turnover by product | | | | | | |
| Womenswear | 165.2 | 197.9 | 225.7 | 242.1 | 242.1 | 249.3 |
| Menswear | 149.4 | 162.8 | 190.1 | 194.5 | 194.5 | 206.2 |
| Accessories (including Childrens) | 125.8 | 169.5 | 189.0 | 197.6 | 197.6 | 203.2 |
| Other | 5.3 | 5.1 | 4.0 | 2.9 | 2.9 | 3.1 |
| Licence | 53.5 | 58.3 | 67.0 | 78.4 | 78.4 | 81.1 |
| Total | 499.2 | 593.6 | 675.8 | 715.5 | 715.5 | 742.9 |
| Turnover by destination | £m | £m | £m | £m | £m | £m |
| Spain | 134.1 | 143.4 | 155.8 | 168.4 | 168.4 | 134.1 |
| Europe | 152.6 | 159.3 | 191.0 | 188.0 | 188.0 | 216.3 |
| North America | 110.5 | 140.5 | 162.4 | 165.9 | 165.9 | 180.4 |
| Asia Pacific | 100.1 | 147.0 | 162.6 | 186.6 | 186.6 | 201.4 |
| Other | 1.9 | 3.4 | 4.0 | 6.6 | 6.6 | 10.7 |
| Total | 499.2 | 593.6 | 675.8 | 715.5 | 715.5 | 742.9 |
| Turnover by operation | £m | £m | £m | £m | £m | £m |
| Retail | 156.9 | 228.4 | 257.4 | 265.2 | 265.2 | 318.5 |
| Wholesale | 288.8 | 306.9 | 351.4 | 371.9 | 371.9 | 343.3 |
| Licence | 53.5 | 58.3 | 67.0 | 78.4 | 78.4 | 81.1 |
| Total | 499.2 | 593.6 | 675.8 | 715.5 | 715.5 | 742.9 |
| Profit by operation | £m | £m | £m | £m | £m | £m |
| Wholesale and Retail | 42.7 | 64.3 | 86.6 | 98.5 | 94.3 | 96.2 |
| Licence | 47.6 | 52.4 | 56.0 | 67.0 | 67.0 | 69.4 |
| EBIT** (before Atlas costs) | 90.3 | 116.7 | 142.6 | 165.5 | 161.3 | 165.6 |
| Net interest income/(expense) | (0.5) | (0.9) | 2.3 | 4.9 | 4.9 | 2.5 |
| Atlas costs | - | - | - | - | - | (11.1) |
| Foreign currency loss on loans with GUS group (pre-flotation) | (0.1) | (2.3) | - | - | - | - |
| Goodwill amortisation | (4.9) | (6.4) | (6.8) | (6.8) | - | - |
| Exceptional/material items | - | (22.0) | 2.2 | 0.8 | - | - |
| Profit on ordinary activities before taxation | 84.8 | 85.1 | 140.3 | 164.4 | 166.2 | 157.0 |
| Tax on profit on ordinary activities | (28.3) | (32.9) | (47.3) | (54.5) | (54.3) | (50.6) |
| Profit on ordinary activities after taxation/Attributable profit | 56.5 | 52.2 | 93.0 | 109.9 | 111.9 | 106.4 |
| Margin analysis | % | % | % | % | % | % |
| Gross margin as percent of turnover | 50.3 | 56.0 | 57.9 | 59.3 | 59.3 | 60.0 |
| EBIT** as percent of turnover | 18.1 | 19.7 | 21.1 | 23.1 | 22.5 | 22.3 |

*Years to 31 March 2002 and 2003 have not been restated to reflect the impact of adopting FRS 17 'Retirement Benefits' as the necessary data is not available.

**Earnings before interest, taxation, goodwill amortisation and exceptional/material items.

Pro forma financial information

Pro forma financial information has been extracted from the Listing Particulars of the Company, dated 12 July 2002. The pro forma financial information has been prepared by combining the historical financial information for each of the Companies that comprise the Burberry Group. The pro forma information relates to the financial years prior to the flotation of Burberry Group. On flotation the Burberry Group was reorganised and a legal statutory group was formed, as a consequence statutory consolidations have been performed for the year to 31 March 2003 and all subsequent years.

FIVE YEAR SUMMARY (continued)

| | 2002* (Pro forma) UK GAAP pence per share | 2003* UK GAAP pence per share | 2004 UK GAAP pence per share | 2005 UK GAAP pence per share | 2005 IFRS pence per share | 2006 IFRS pence per share |
|--|---|--|---------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| Earnings and dividends | | | | | | |
| Basic earnings per share | 11.3 | 10.5 | 18.8 | 22.2 | 22.7 | 22.9 |
| Basic earnings per share before goodwill amortisation and exceptional/Atlas costs | 12.3 | 14.9 | 19.8 | 23.4 | n/a | 24.7 |
| Diluted earnings per share | 11.1 | 10.3 | 18.4 | 21.8 | 22.2 | 22.3 |
| Diluted earnings per share before goodwill amortisation and exceptional/Atlas cost | 12.1 | 14.6 | 19.4 | 23.0 | n/a | 24.1 |
| Dividend per share (UK GAAP on an accruals basis) | n/a | 3.0 | 4.5 | 6.5 | n/a | n/a |
| Dividend per share (IFRS on a paid basis) | n/a | n/a | n/a | n/a | 5.0 | 7.0 |
| Diluted weighted average number of Ordinary Shares in issue during the year | 506.3 | 506.2 | 505.9 | 504.6 | 504.5 | 477.6 |
| Dividend cover (UK GAAP on an accruals basis)* | n/a | 5.0 | 4.4 | 3.7 | n/a | n/a |
| Dividend cover (IFRS on a paid basis)* | n/a | n/a | n/a | n/a | 4.5 | 3.2 |

*Based on attributable profit or profit after taxation before goodwill amortisation and exceptional items.

| | 2002* (Pro forma) UK GAAP £m | 2003* UK GAAP £m | 2004 (Restated) UK GAAP £m | 2005 UK GAAP £m | 2005 IFRS £m | 2006 IFRS £m |
|--|---------------------------------------|------------------------|-------------------------------------|-----------------------|--------------------|--------------------|
| Balance sheet | | | | | | |
| Fixed assets, investment and other intangible assets | 125.4 | 162.4 | 150.7 | 167.0 | 165.6 | 181.2 |
| Working capital (excluding cash and borrowings) | 87.7 | 73.8 | 66.6 | 77.7 | 79.6 | 121.7 |
| Other long term liabilities | (3.9) | (10.6) | (10.8) | (9.8) | (10.1) | (19.2) |
| Net operating assets | 209.2 | 225.6 | 206.5 | 234.9 | 235.1 | 283.7 |
| Goodwill | 94.9 | 122.8 | 110.6 | 107.1 | 114.0 | 121.2 |
| Deferred consideration for acquisitions | (22.5) | (31.7) | (31.7) | (32.7) | (32.7) | (11.5) |
| Cash at bank, net of overdraft and borrowings | 21.3 | 79.6 | 157.9 | 169.9 | 169.9 | 12.5 |
| Taxation (including deferred taxation) | (20.5) | 0.4 | 1.0 | (2.9) | (14.0) | (19.3) |
| Dividends payable | - | (10.0) | (14.9) | (21.7) | - | - |
| Net assets | 282.4 | 386.7 | 429.4 | 454.6 | 472.3 | 386.6 |

| | 2002* (Pro forma) UK GAAP £m | 2003* UK GAAP £m | 2004 (Restated) UK GAAP £m | 2005 UK GAAP £m | 2005 IFRS £m | 2005 IFRS £m |
|--|---------------------------------------|------------------------|-------------------------------------|-----------------------|--------------------|--------------------|
| Cash flow | | | | | | |
| Operating profit before goodwill amortisation and exceptional items | 90.3 | 116.7 | 142.6 | 165.5 | 161.3 | 165.6 |
| Atlas costs | - | - | - | - | - | (11.1) |
| Operating profit after Atlas costs | 90.3 | 116.7 | 142.6 | 165.5 | 161.3 | 154.5 |
| Depreciation, impairment and trademark amortisation charges | 14.0 | 19.0 | 28.5 | 24.4 | 24.4 | 24.9 |
| Loss/(profit) on disposal of fixed assets and similar non-cash charges | 0.2 | 1.5 | 1.7 | (1.1) | (1.1) | (1.7) |
| Charges in respect of employee share incentive schemes | - | - | 3.6 | 5.3 | 9.5 | 7.4 |
| (Increase)/decrease in stocks | (7.0) | 5.2 | (7.5) | (12.8) | (12.9) | (17.8) |
| (Increase)/decrease in debtors | (5.2) | (2.4) | (1.5) | (7.3) | (7.3) | 1.8 |
| Increase/(decrease) in creditors | (2.2) | 25.0 | 18.2 | 1.5 | 1.5 | (20.7) |
| Net cash inflow from operations before capital expenditure | 90.1 | 165.0 | 185.6 | 175.5 | 175.4 | 148.4 |
| Purchase of tangible and intangible fixed assets | (39.4) | (55.7) | (28.8) | (37.2) | (37.2) | (30.7) |
| Sale of tangible fixed assets | 0.5 | 0.2 | - | 3.1 | 3.1 | 3.6 |
| Net cash inflow from operating activities | 51.2 | 109.5 | 156.8 | 141.4 | 141.3 | 121.3 |

*Years to 31 March 2002 and 2003 have not been restated to reflect the impact of adopting FRS 17 'Retirement Benefits' as the necessary data is not available.

SHAREHOLDER INFORMATION

Registrar

Enquiries concerning holdings of the Company's shares and notification of the holder's change of address should be referred to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, telephone: 0870 600 3970. In addition, Lloyds TSB Registrars offer a range of shareholder information online at www.shareview.co.uk. A text phone facility for those with hearing difficulties is available by calling: 0870 600 3950.

Share price information

The latest Burberry Group plc share price is available on Burberry's website and also on the Financial Times Cityline Service on 0906 843 0000 (calls charged at 60p per minute).

ShareGift

Shareholders with a small number of Burberry shares, the value of which makes it uneconomic to sell them, may wish to consider donating their shares to the charity ShareGift, (registered charity 1052686) which specialises in using such holdings for charitable benefit. A ShareGift Donation form can be obtained from Lloyds TSB Registrars at the above address.

For further information, ShareGift can be contacted as follows:

ShareGift
46 Grosvenor Street
London
W1K 3HN
Telephone: 020 7828 1151
Website: www.sharegift.org

Internet

A full range of investor relations information on Burberry is available at www.burberryplc.com. This includes web casts of results presentations given to analysts and fund managers together with the slides accompanying those presentations.

Financial calendar

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|---|---------------|
| Final dividend record date | 6 July 2006 |
| First quarter trading update | 12 July 2006 |
| Annual General Meeting | 14 July 2006 |
| Final dividend to be paid | 3 August 2006 |
| First half trading update | October 2006 |
| Preliminary announcement of interim results | November 2006 |
| Third quarter trading update and Interim dividend record date | January 2007 |
| Interim dividend to be paid | February 2007 |
| Second half trading update | April 2007 |
| Preliminary announcement of annual results | May 2007 |

Registered office

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