Burberry Group plc

2006/07 Preliminary Results

24 May 2007. Burberry Group plc reports preliminary results for its financial year to 31 March 2007.

Summary of Results

	Year to 31 March		
	2007	2006	Change
	£m	£m	%
Turnover	850.3	742.9	14
Adjusted EBIT[(1)]	185.1	165.6	12
Operating profit	157.0	154.5	2
Attributable profit for the year	110.2	106.4	4
Free cash flow	84.8	61.8	37
Adjusted diluted EPS[(1)]	29.1p	24.1p	21
Dividend per Ordinary Share	10.5p	8.0p	31
Diluted EPS	24.7p	22.3p	11
Diluted weighted average number of Ordinary Shares	446.1m	477.6m	(7)

Financial Highlights

- Total revenue increased 15% on an underlying[(2)] basis to £850.3 million
  - Retail revenue increased 24% underlying, on a 12% comparable store gain
  - Wholesale revenue increased 8% underlying
  - Licensing revenue increased 10% underlying
- Adjusted EBIT increased 12% to £185.1 million
  - a 17% increase at constant exchange rates
- Adjusted retail/wholesale EBIT margin of 14.6% vs 14.5% in prior period
  - total adjusted EBIT margin of 21.8% vs 22.3% in prior period
  - movement reflects reduced licensing share of revenue
- Adjusted diluted EPS increased 21% to 29.1p
- Sharp acceleration in revenue, adjusted EBIT and EPS growth relative to prior year
- Continued strong free cash flow with £85 million generated in the year
- Final dividend of 7.625p per Ordinary Share proposed
  - 10.5p for full year, a 31% increase
- Bought 12.3 million shares at cost of £62 million during the year as part of ongoing repurchase programme

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(1) "Adjusted" refers to profitability measures calculated before Atlas and plant closure costs:
- Atlas costs of £21.6 million (2006: £11.1 million) relate to the Group's infrastructure redesign initiative announced in May 2005.
- Plant closure costs of £6.5 million relate to the closure of the Treorchy manufacturing facility in March 2007.

(2) 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 2005/06 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

- Enhanced consistency of brand presentation
  - Centralised design and creative direction in London
  - Synchronised marketing programme
- Progressed primary product strategies
  - Outstanding outerwear performance driven by product innovation
  - Strong consumer response to luxury handbag initiatives
  - Launched new eyewear collection
- Advanced retail programme
  - Opened 12 stores, one replacement store, a net 13 concessions and three outlets
  - Accelerated pace of expansion to 13% average underlying selling space growth (from 8% in 2005/06)
  - Retail now largest distribution channel with 48% share of revenue
- Revitalised wholesale channel
  - strong growth across North America, Europe, Asia and emerging markets
- Achieved near-term operational objectives
  - Project Atlas successfully completed initial SAP implementations, and on schedule for major deployments in 2007/08
  - Initiated development of integrated global supply chain
- Celebrated Burberry's 150th anniversary

Commenting on the results Angela Ahrendts, Chief Executive, stated, *"With a 21% increase in adjusted EPS on a 15% underlying revenue gain, our 150th anniversary was an outstanding year for Burberry. On the strategic front, we advanced the luxury component of the brand, accelerated retail expansion and continued to evolve the operating model. We face the current year with confidence, given the strength of our brand, effectiveness of our strategies and talent of our teams around the world."*

Management will discuss these results during a presentation to analysts and institutions at 1:00pm today at Merrill Lynch Financial Centre, The Auditorium, 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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Business and Financial Review

Business Review

Burberry's 150th year was marked by outstanding performance: a balance of strong financial results, important strategic advances and significant investment for the future. The Group generated total revenue of £850.3 million, representing 15% underlying[1] growth and a sharp acceleration from 3% in the previous financial year. Growth in operating profit before Project Atlas and plant closure costs ("Adjusted EBIT")[2] accelerated to 12%, for a total of £185.1 million. Adjusted diluted EPS[2] increased 21% to 29.1p. During the year, the Group completed a major strategic review of the business, more precisely identifying its opportunities and refining its strategy, as represented by these five strategic themes:

- Leverage the franchise
- Intensify non-apparel development
- Accelerate retail-led growth
- Invest in under-penetrated markets
- Pursue operational excellence

In line with these themes, Burberry initiated incremental investment across the business to drive future performance. This investment was primarily directed toward enhancing the luxury component of the brand, advancing retail expansion, evolving to a more retail-oriented operating model and improving operational capabilities. These themes of strategic evolution and investment are reflected in the review of Burberry's 2006/07 results set forth below.

Regions. All regions demonstrated progress in the year, with growth accelerating in the second half.

Retail and Wholesale Revenue by Geographical Market (Destination)

	Reported		% change		Revenue Mix %	
(£ million)	2006/07	2005/06	Reported	Underlying[1]	2006/07	2005/06
Europe (excluding Spain)	229.8	191.5	20%	20%	27%	26%
North America	196.5	177.9	11%	18%	23%	24%
Asia Pacific	167.5	144.6	16%	18%	20%	19%
Spain	151.8	134.1	13%	2%	18%	18%
Rest of World	18.6	13.7	36%	36%	2%	2%
Total	764.2	661.8	16%	16%	90%	89%
Licensing	86.1	81.1	6%	10%	10%	11%
Total	850.3	742.9	14%	15%	100%	100%

[1] 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 2005/06 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.

[2] "Adjusted" refers to profitability measures calculated before Atlas and plant closure costs:

- Atlas costs of £21.6 million (2006: £11.1 million) relate to the Group's infrastructure redesign initiative announced in May 2005.
- Plant closure costs of £6.5 million relate to the closure of the Treorchy manufacturing facility in March 2007.

- **Europe (excluding Spain).** Sales performance was generally strong for the year. Excellent retail gains combined with wholesale strength to produce 20% underlying growth in the region. Sustained demand across a majority of markets, particularly Italy, Germany and Greece, drove strong wholesale performance. Retail sales were robust across the region with leading comparable store sales increases for the Group. These gains were complemented by contributions from new space additions. Retail strength also drove double digit gains in the UK market. During the year, Burberry opened stores in Manchester (UK), Prague (Czech Republic) and Vienna (Austria) and five concessions and an outlet in the region.

- **North America.** Strong performance across both the retail and wholesale channels produced 18% underlying revenue growth. Ongoing efforts with key accounts and the attractive spring/summer collection drove second half wholesale gains, and a strong performance for the year. In retail, sales growth was balanced between gains at existing stores and contributions from new space. In line with the strategy to accelerate expansion in underpenetrated markets, the Group opened five stores and two outlets in North America during the year. New stores included Atlantic City (New Jersey), Bergen County (New Jersey), Kansas City (Missouri), North Los Angeles (California) and Northbrook (Illinois).

- **Asia Pacific.** Double digit gains in both the retail and wholesale channels drove an 18% increase in Asia Pacific revenue for the year. Wholesale gains were led by demand from travel retail customers and initial sales of global products into the Japanese market. Retail performance was generally strong throughout the region with overall growth balanced between existing and new space. Stores in Hong Kong and other Southeast Asia markets achieved particularly strong gains. The Taiwan acquisition added to the reported increase. During the period, the Group opened a store in Sydney (Australia) and three concessions in Korea and Japan.

- **Spain.** Spain achieved a 2% underlying revenue gain for the year. The underlying decline in wholesale revenue, primarily driven by reduced orders in the speciality store channel, partially offset underlying retail strength. Led by new space additions, retail performance was complemented by excellent gains at existing stores and concessions. Completing their first full year of operation, the womenswear concessions demonstrated notable progress. As part of the objective to enhance brand positioning in this market, Burberry opened stores in Madrid and Seville. The Group also opened five concessions during the period. In addition, 24 childrenswear shop-in-shops were converted to the concession format late in the year.

- **Rest of World.** RoW revenues largely represent sales to emerging markets, including the Middle East, Eastern Europe, Russia and South America. Wholesale sales to these areas increased 36% underlying in the year, largely on increased sales to existing customers. These customers sell Burberry products primarily through franchised stores. The stores achieved excellent performance during the year. In conjunction with these franchise partners, the

Group opened stores in Istanbul (Turkey), Kiev (Ukraine) and Mexico City (Mexico).

- **Japan Licensing.** Japan licences accounted for approximately 64% of Burberry's licensing revenue for the financial year. Led by apparel, ongoing licences produced a good gain in the period. This was partially offset by the effect of licence terminations, as part of Burberry's ongoing initiative to adjust the product mix in this market. The net result was a modest underlying increase in Japan licensing revenue.

Channels. Revenue performance across Burberry's three channels of distribution was generally strong for the year, with each channel responding to the Group's renewed strategic emphases.

Revenue by Channel of Distribution

	Reported		% change		Revenue Mix %	
£ million	2006/07	2005/06	Reported	Underlying(1)	2006/07	2005/06
Retail	410.1	318.5	29%	24%	48%	43%
Wholesale	354.1	343.3	3%	8%	42%	46%
Licensing	86.1	81.1	6%	10%	10%	11%
Total	850.3	742.9	14%	15%	100%	100%

- **Retail.** Retail sales increased 24% underlying, 29% reported. Comparable store sales increased 12%, with all regions achieving double digit gains. Benefiting from new luxury products, an effective marketing campaign, enhanced product flow and basic replenishment, Burberry experienced increases in store traffic and average selling prices. Underlying average retail selling space increased approximately 13%. The Taiwan acquisition and Spain retail conversion contributed ten percentage points to the reported gain. Currency movements reduced the reported gain by five percentage points. The Group opened 12 stores, one replacement store, a net 13 concessions and three outlets, reflecting a substantial increase in new space activity relative to the previous year.

  As a result, retail represented 48% of total revenue for the year and is now Burberry's largest distribution channel - an important strategic milestone in keeping with the Group's emphasis on retail-led growth. This channel shift has fundamental implications for the Group's margin structure, leading to increases in both gross margin and expense ratio.

- **Wholesale.** Gaining momentum throughout the year, wholesale sales increased 8% underlying, 3% reported. With the exception of Spain, all regions achieved double digit underlying increases. Sales gains, primarily in the second half, were boosted by initial success of the basic replenishment programme and incremental orders associated with the new market calendar. On a reported basis, this increase was reduced by three percentage points due to the Spain retail conversion and Taiwan acquisition, and a further two percentage points by currency movements.

- **Licensing.** Strong growth in product licence revenue (approximately 36% of licensing revenue) coupled with the modest underlying increase in Japan licensing revenue produced a 10% underlying increase in total licensing revenue for the year. Among product licences, fragrances led gains, benefiting from the major launches of *Burberry London* for women and men in 2006 and introduction of the new *Burberry Summer* scent in spring 2007. Watches also performed well in the period, driven by both core and fashion styles. The first collection under Burberry's new global eyewear agreement launched during the second half. Supported by an extensive marketing campaign and a plan for distribution in 15,000 doors worldwide, eyewear contributed to product licence revenue growth. Currency movements reduced total underlying licensing revenue growth by four percentage points, resulting in a 6% reported gain.

Products. Burberry's evolution from its historical wholesale origins to a more dynamic, retail-oriented operating culture had important implications for product design and merchandising during the year. Considering in-store environments, the Group seeks to enhance the aesthetic cohesion across product categories generally, and maximise the visual impact of each individual capsule presentation specifically. Toward this goal, Burberry centralised its design process in London, largely eliminating regional design centres, and physically integrated the category-specific design teams, to create a single, integrated design function. As part of enhancing the clarity of in-store presentations, product teams reduced significantly the number of styles developed within each collection. The product design cycle was revamped to increase the number of collections created, allowing new merchandise to be offered in stores monthly. These design and merchandising initiatives have been enabled by increased investment in product development and design and merchandising talent.

Revenue by Product Category

	Reported		% change		Revenue Mix %	
£ million	**2006/07**	**2005/06**	**Reported**	**Underlying[(2)]**	**2006/07**	**2005/06**
Womenswear	305.5	249.3	23%	19%	36%	34%
Menswear	227.0	206.2	10%	13%	27%	28%
Accessories	211.2	189.2	12%	15%	25%	25%
Other	20.5	17.1	20%	21%	2%	2%
Licensing	86.1	81.1	6%	10%	10%	11%
Total	850.3	742.9	14%	15%	100%	100%

- **Runway.** Burberry's runway collection enjoyed outstanding results in the year. The spring and autumn collections continued to be among the most critically acclaimed and followed in Milan. Commercially, in keeping with Burberry's strategy to enhance the luxury and high-fashion elements of its business, sales of runway apparel collections approximately doubled for these two seasons. The addition of a women's Spring/Summer 2007 pre-collection in order to enhance new product flow contributed to this success. This pre-collection strategy continues with future seasons. Integration of design teams has stimulated incorporation of runway design innovation across all collections.

- **Womenswear.** Led by key strategic categories, womenswear produced an excellent performance. Outstanding outerwear sales, benefiting from product innovation, seasonless styles and balanced assortments, were a consistent feature throughout the year. Within outerwear, rainwear was a particular highlight. Strength in women's runway apparel also contributed to the category's growth. During the year, the Group made good progress in its objective to increase the sartorial/tailored segment of the product mix, while evolving its core casual offering.

- **Menswear.** Key womenswear trends were mirrored in menswear. Reflecting similar product development emphases, outerwear was a key driver of menswear revenue. Runway apparel performed well throughout the year. Strength in selected casual apparel categories also contributed to menswear's growth. As part of the Group's efforts to integrate further its operations, the International and Spain menswear divisions jointly developed a global outerwear offering.

- **Accessories.** The Group intensified non-apparel development. Driven by product design and development efforts to enhance innovation and elevate assortments, luxury handbag sales gained momentum throughout the year - accounting for an increasing percentage of the accessory mix. Successfully broadening distribution of these products within Burberry's store network also demonstrated their relevance to a wider consumer base. An exclusive range of handbags designed in celebration of Burberry's 150th anniversary – the Burberry Icons Collection – was a highlight of the year. In the Group's core scarf category, new designs were an important factor underpinning strong performance. Good progress in the small leathergoods, belt and shoe categories was also achieved in the year.

- **Marketing.** New product initiatives and the increasing retail orientation of the business are inducing a realignment of marketing strategies. In keeping with efforts to enhance the brand's consistency across consumer touch points, all Burberry visual imagery is now derived from a single source – whether print advertisement, catalogue or in-store display. The seasonal image campaign is also segmented to emphasise the primary sectors and groups within the product line. The programme's various elements are synchronised to appear with the flow of related products to stores. The Group is also reallocating marketing investment with a greater emphasis on direct, digital and event strategies.

Operations. Enhancing operating efficiency and effectiveness is a primary objective for the Group.

- **Project Atlas.** Project Atlas, the cornerstone of Burberry's efforts to improve operational efficiency, completed its second year. During the period, key systems deployments were implemented as scheduled, with minor alterations to originally planned phasing to better accommodate changes in Burberry's business. Completed SAP deployments include UK-based financial and non-stock procurement, production planning, manufacturing and procurement. During the second half the Group also initiated a tactical software solution providing improved visibility of retail sales and inventory. The approximately £6 million of benefits associated with Project Atlas during the year were derived from reduced procurement and sourcing costs and replenishment-related gains. Expenses incurred in 2006/07 totalled £21.6 million. During the next six months, Atlas enters its most intensive stage with major SAP deployments in the Group's core product development operations and key geographical units.

- **Supply chain.** Important supply chain initiatives during the year included:
  - Burberry appointed its first head of global supply chain, developed a strategy for implementing a single, integrated structure across the business and began the process of building the required organisation.
  - To improve sourcing efficiency, the Group took initial steps to rationalise its supplier base and move toward a more vertical sourcing structure.
  - The Group completed the closure of a manufacturing facility in March 2007. This resulted in a £6.5 million charge in the 2006/07 financial year to cover redundancy payments and outplacement and training services for affected employees, a community contribution and asset write-offs. Expense savings associated with elimination of manufacturing losses are expected to be approximately £1.5 million annually.

- **Global headquarters.** In December 2006, Burberry entered into a lease for a new global headquarters. Located in central London (Westminster), the site will allow the Group to consolidate its operations, including design, showrooms, merchandising, marketing, supply chain, finance and executive and administrative functions, within a single facility. These functions are currently divided among five locations in London. The relocation is expected to take place in late 2008.

Financial summary

- Revenue increased 15% on an underlying basis (14% reported) to £850.3 million for the year.

- Gross margin improved from 60.0% to 61.3% as a result of the increase in the retail channel's share of revenue, reduced markdowns, favourable product mix and sourcing gains. This increase was partially offset by increased product development costs and fulfilment expenses during this period of accelerated growth, as well as the licensing channel's reduced share of revenue.

- The channel shift in favour of retail was also an important contributor to the increase in the adjusted expense ratio (before Atlas and plant closure costs) from 37.8% to 39.5%. Additional factors underlying this increase include expenses associated with accelerated retail expansion and investment in people relating to product and supply chain initiatives. This increase was partially offset by initial Atlas expense benefits.

- The Group maintained its adjusted retail/wholesale EBIT margin at 14.6% in 2006/07 relative to 14.5% in 2005/06. Total adjusted EBIT margin was 21.8% relative to 22.3% in the previous period. This decrease was driven by licensing's reduced share of revenue.

- Adjusted EBIT increased to £185.1 million, a 12% gain. Excluding the effect of currency movements (an approximate £8.4 million translation-related reduction), adjusted EBIT increased 17%.

- Burberry's effective tax rate declined from 32.2% to 29.5%. This decline resulted from an approximate 1% ongoing decrease driven by the changing regional mix of the Group's business, coupled with an approximate 1.5% one-time reduction relating to the settlement of certain transfer pricing arrangements.

- Adjusted diluted EPS increased 21% to 29.1p.

- Including Atlas and plant closure costs, operating profit was £157.0 million with diluted EPS of 24.7p.

- Full year capital expenditure totalled £38.8 million.

- The Group generated £84.8 million of free cash in the year.

- The directors have proposed a 39% increase in the final dividend to 7.625p which would result in a full year dividend of 10.5p, a 31% increase.

- In the year, the Group repurchased 12.3 million shares (2.7% of shares outstanding at 31 March 2006) at a total expenditure of £62.2 million.

2007/08 Outlook

Burberry's current outlook for the 2007/08 financial year includes the following features:

- **Retail.** Burberry plans an approximate 13% increase in average retail selling space. The majority of space expansion will be concentrated in the US and European markets.
- **Wholesale.** Based upon orders received to date, first half wholesale sales are expected to achieve a mid-teens percentage underlying gain relative to the comparative period.
- **Licensing.** The Group anticipates broadly flat underlying licensing revenue relative to 2006/07.
    - Licences in Japan are expected to produce a moderate underlying revenue gain for the year primarily as a result of continued apparel growth.
    - Growth in selected product licence categories is expected to be offset by decreases at others, reflecting product cycles and channel transitions.
    - On a reported basis, yen-related exchange rate movements will reduce licensing revenue in excess of £6 million.
- **Project Atlas.** In keeping with alterations to systems implementation phasing required by changes in the business, Atlas expenses are budgeted at approximately £15 million for the financial year. In line with previous statements, Burberry expects P&L benefits associated with Project Atlas of approximately £20 million in the period.
- **Tax rate.** The Group anticipates an effective tax rate of approximately 31%.
- **Capital expenditures.** Capital expenditures are budgeted at approximately £60 million. The majority of investment is directed to retail operations, including planned renovation of approximately 20 high visibility stores.

Financial Review

Group results

Year to 31 March	2007 £m	2007 Percentage of turnover	2006 £m	2006 Percentage of turnover
Turnover				
Retail	410.1	48.2%	318.5	42.9%
Wholesale	354.1	41.7%	343.3	46.2%
Licensing	86.1	10.1%	81.1	10.9%
Total turnover	**850.3**	**100.0%**	**742.9**	**100.0%**
Cost of sales	(329.0)	(38.7%)	(296.8)	(40.0%)
Gross profit	**521.3**	**61.3%**	**446.1**	**60.0%**
Adjusted operating expenses	(336.2)	(39.5%)	(280.5)	(37.8%)
Adjusted EBIT	**185.1**	**21.8%**	**165.6**	**22.3%**
Atlas costs	(21.6)	(2.5%)	(11.1)	(1.5%)
Plant closure costs	(6.5)	(0.8%)	-	-
Operating profit	**157.0**	**18.4%**	**154.5**	**20.8%**
Net finance (expense)/income	(0.7)	-	2.5	0.3%
Profit before taxation	**156.3**	**18.4%**	**157.0**	**21.1%**
Taxation	(46.1)	(5.4%)	(50.6)	(6.8%)
Attributable profit for the year	**110.2**	**13.0%**	**106.4**	**14.3%**
Adjusted diluted EPS	**29.1p**	**-**	24.1p	**-**
Diluted EPS	24.7p	-	22.3p	-
Diluted weighted average number of Ordinary Shares (millions)	446.1	-	477.6	-

Burberry Group turnover is composed of revenue from three channels of distribution: retail, wholesale and licensing operations. Retail revenue is generated primarily from the sale of women's and men's apparel and accessories through the Group's directly operated store network. Wholesale revenue arises from the sale of these products to wholesale customers worldwide, principally leading and prestige department and speciality retailers and franchisees. Licence revenue consists of royalties receivable from Japanese and product licensees. At 31 March 2007, the Group operated 292 retail locations (2005/06: 260) consisting of 77 Burberry stores (2005/06: 66), 182 concessions (2005/06: 164) and 33 outlet stores (2005/06: 30).

Turnover

Total turnover advanced to £850.3 million from £742.9 million in the prior period, representing an increase of 14%, or 15% on an underlying basis. In determining "underlying" performance, results 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 currency exchange rate differences between periods. The Taiwan acquisition and Spain retail conversion shift sales from Burberry's wholesale channel to its retail channel. The financial effects of the relevant businesses are excluded from both reporting periods.

Operating profit
Gross profit as a percentage of turnover was 61.3% in 2006/07 relative to 60.0% in the prior year. The increase was driven by the increase in the retail channel's share of revenue, reduced markdowns, favourable product mix and sourcing gains. This gain was partially offset by increased product development and fulfilment expenses during this period of accelerated growth, as well as the licensing channel's reduced share of revenue.

Adjusted net operating expenses (before Atlas and plant closure costs) as a percentage of turnover increased to 39.5% from 37.8% in the previous period. This increase in the adjusted expense ratio reflected the change in Burberry's cost structure with the revenue shift to the retail channel. Additional factors driving the rise include expenses associated with accelerated retail expansion and investment in people relating to product and supply chain initiatives. This increase was partially offset by initial Atlas expense benefits.

As a result of the elements above, adjusted EBIT increased 12% to £185.1 million, or 21.8% of turnover relative to 22.3% in the previous year. Excluding the impact of exchange rate movements adjusted EBIT rose 17%. Exchange rate differences relative to the previous period reduced reported operating profit by £8.4 million.

Expenses associated with Project Atlas totalled £21.6 million (2006: £11.1 million) and the plant closure resulted in a £6.5 million charge. Reported operating profit was £157.0 million for the year.

Net finance income
Net interest expense was £0.7 million in the year to March 2007, compared to net interest income of £2.5 million in the prior period, reflecting the change in the Group's capitalisation. In the prior year period, the Group maintained a cash balance in advance of completing in March 2006 its £250 million share repurchase plan. Burberry continued to repurchase shares during the year.

Profit before taxation
Burberry reported adjusted profit before taxation of £184.4 million in the year to March 2007 compared to £168.1 million in the prior period. Including Atlas and plant closure costs, profit before taxation was £156.3 million in the current period.

Attributable profit
Burberry recorded a 29.5% effective tax rate (2005/06: 32.2%) on profit, resulting in a £46.1 million tax charge, and reported attributable profit of £110.2 million for the year to March 2007 compared to £106.4 million reported in the prior period. The decline in Burberry's effective tax rate resulted from an approximate 1% ongoing decrease driven by the changing regional mix of the Group's business, coupled with an approximate 1.5% one-time reduction relating to the settlement of certain transfer pricing arrangements.

Adjusted diluted earnings per share increased 21% to 29.1p compared to 24.1p in the prior period. Including Atlas and plant closure costs, the Group reported diluted earnings per share of 24.7p. In the year to March 2007, the diluted weighted average number of ordinary shares in issue was 446.1 million (2005/06: 477.6 million).

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, share repurchases and dividends. Principal sources of funds have been cash flow from operations and borrowings under its credit facilities. Burberry expects to finance the expansion of its business, capital expenditures, including strategic infrastructure investments, share repurchases and shareholder dividends with cash generated from operating activities and the use of credit facilities.

The table below sets out the principal components of cash flow for the year to 31 March 2007 and 31 March 2006 and net funds at period end:

Year to 31 March	**2007**	**2006**
	£m	*£m*
Adjusted EBIT	**185.1**	**165.6**
Atlas & plant closure costs	(28.1)	(11.1)
Operating profit	**157.0**	**154.5**
Depreciation and related charges	26.7	24.9
Loss/(Profit) on disposal of fixed assets	1.1	(1.6)
Charges in respect of employee share incentive schemes	10.8	7.4
Increase in stocks	(33.4)	(17.8)
(Increase)/Decrease in debtors	(33.8)	2.2
Increase/(Decrease) in creditors	32.8	(21.2)
Net cash inflow from operating activities	**161.2**	**148.4**
Net interest (paid)/received	(1.6)	1.6
Taxation paid	(45.8)	(43.6)
Capital expenditures and acquisition related payments	(35.7)	(50.7)
Sale of shares by ESOPs	6.1	2.4
Issue of ordinary share capital	0.6	3.7
Free cash flow	**84.8**	**61.8**
Share repurchases	(62.2)	(191.6)
Equity dividends paid	(36.5)	(32.8)
Movement in net funds resulting from cash flows	**(13.9)**	**(162.6)**
Exchange rate (loss)/gain	(1.4)	5.2
Movement in net funds	**(15.3)**	**(157.4)**
Net funds at end of period	**(2.8)**	**12.5**

Net cash inflow from operating activities was £160.2 million compared to £148.4 million in the prior period. Stock levels increased £33.4 million as a result of growth in the business, the expanded retail network and the replenishment programme.

The £33.8 million increase in debtors and £32.8 million increase in creditors are in line with growth of the business.

Capital expenditures and acquisition related payments included net purchases of fixed assets of £34.3 million relating primarily to continued investment in the Group's retail operations and infrastructure.

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

In connection with share incentive awards, the Group sold £6.1 million (2005/06: £2.4 million) of equity from its Employee Share Ownership Trust and received £0.6 million (2005/06: £3.7 million) from the issue of new shares following the exercise of share options.

In the year to March 2007 the Group repurchased 12.3 million shares at a total expenditure of £62.2 million.

The Group paid an interim dividend of 2.875p per share (2005: 2.5p) on 1 February 2007. A final dividend of 7.625p per share is proposed, payable August 2007. As proposed, the total dividend for 2006/07 would increase 31% to 10.5p per share (£45.6 million aggregate amount).

At 31 March 2007, 437.8 million ordinary shares were outstanding (446.7 million at 31 March 2006).

Group Income Statement

	Note	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Turnover	3	**850.3**	**742.9**
Cost of sales		(329.0)	(296.8)
Gross profit		**521.3**	**446.1**
Net operating expenses	**4**	(364.3)	(291.6)
Operating profit		**157.0**	**154.5**
Financing			
Interest receivable and similar income	6	5.5	4.3
Interest payable and similar charges	6	(6.2)	(1.8)
Net finance (charge)/ income	6	**(0.7)**	**2.5**
Profit before taxation	5	**156.3**	**157.0**
Taxation	7	(46.1)	(50.6)
Attributable profit for the year		**110.2**	**106.4**

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

Pence per share			
Earnings per share			
- basic	8	25.2p	22.9p
- diluted	8	24.7p	22.3p

Non-GAAP measures		£m	£m
Operating profit		157.0	154.5
Project Atlas costs	4	21.6	11.1
Treorchy closure costs	4	6.5	-
Adjusted operating profit		**185.1**	**165.6**
Pence per share			
Adjusted earnings per share			
- basic	8	29.7p	24.7p
- diluted	8	29.1p	24.1p
Dividends per share			
- interim	9	2.875p	2.5p
- proposed final (not recognised as a liability at 31 March)	9	7.625p	5.5p

Group Statement of Recognised Income and Expense

	Note	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Attributable profit for the year		**110.2**	**106.4**
Cash flow hedges – gains/(losses) deferred in equity	22	9.1	(3.8)
Foreign currency translation differences	22	(28.9)	15.6
Net actuarial (losses)/gains on defined benefit pension scheme	22	(0.5)	0.7
Tax on items taken directly to equity	22	(1.5)	1.5
Net income recognised directly in equity		**(21.8)**	**14.0**
Cash flow hedges – transferred to the income statement	22	(5.9)	(0.7)
Tax on items transferred from equity	22	1.8	0.2
Net income recognised directly in equity net of transfers		**(25.9)**	**13.5**
Recognised income for the year		**84.3**	**119.9**
Total impact on adoption of IAS 32 and IAS 39		**-**	1.9
Total recognised income for the year		**84.3**	**121.8**

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

Group Balance Sheet

	Note	As at 31 March 2007 £m	As at 31 March 2006 £m
ASSETS			
Non-current assets			
Intangible assets	10	133.6	135.4
Property, plant and equipment	11	162.7	167.0
Deferred taxation assets	12	24.6	16.6
Trade and other receivables	13	5.1	4.2
		326.0	**323.2**
Current assets			
Stock	14	149.8	124.2
Trade and other receivables	13	137.2	108.0
Derivative financial assets	15	5.3	2.8
Income tax recoverable		-	0.2
Cash and cash equivalents	16	131.4	113.7
		423.7	**348.9**
Total assets		**749.7**	**672.1**
LIABILITIES			
Non-current liabilities			
Long term liabilities	17	(10.4)	(14.6)
Deferred taxation liabilities	12	(10.2)	(10.5)
Retirement benefit obligations	18	(1.8)	(1.8)
Provisions for liabilities and charges	19	-	(2.8)
		(22.4)	**(29.7)**
Current liabilities			
Bank overdrafts and borrowings	20	(134.2)	(101.2)
Derivative financial liabilities	15	(0.5)	(2.1)
Trade and other payables	21	(170.7)	(126.9)
Income tax liabilities		(25.0)	(25.6)
		(330.4)	**(255.8)**
Total liabilities		**(352.8)**	**(285.5)**
Net assets		**396.9**	**386.6**
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Ordinary share capital	22	0.2	0.2
Share premium account	22	167.3	151.8
Capital reserve	22	26.0	25.8
Hedging reserve	22	1.8	(0.2)
Foreign currency translation reserve	22	(6.2)	21.2
Retained earnings	22	207.8	187.8
Total equity		**396.9**	**386.6**

Approved by the Board on 23 May 2007 and signed on its behalf by:

John Peace
Chairman

Stacey Cartwright
Chief Financial Officer

Group Cash Flow Statement

	Note	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Cash flows from operating activities			
Operating profit		157.0	154.5
Depreciation		25.9	22.5
Amortisation		1.8	2.0
Impairment (releases)/charges		(1.0)	0.4
Loss/(profit) on disposal of property, plant and equipment		1.1	(1.6)
Charges in respect of employee share incentive schemes		10.8	7.4
Increase in stocks		(33.4)	(17.8)
(Increase)/decrease in debtors		(33.8)	2.2
Increase/(decrease) in creditors		32.8	(21.2)
Cash generated from operations		161.2	148.4
Interest received		4.6	3.0
Interest paid		(6.2)	(1.4)
Taxation paid		(45.8)	(43.6)
Net cash inflow from operating activities		**113.8**	**106.4**
Cash flows from investing activities			
Purchase of tangible and intangible fixed assets		(34.3)	(30.7)
Proceeds from sale of property, plant and equipment		0.1	3.6
Payment of deferred consideration		(1.4)	(19.2)
Acquisition of subsidiary	26	(0.1)	(4.4)
Net cash outflow from investing activities		**(35.7)**	**(50.7)**
Cash flows from financing activities			
Dividend paid in the year	22	(36.5)	(32.8)
Issue of ordinary share capital		0.6	3.7
Purchase of shares through share buy back	22	(62.2)	(191.6)
Sale of own shares by ESOPs	22	6.1	2.4
Draw down on loan facility	20	10.0	50.0
Net cash outflow from financing activities		**(82.0)**	**(168.3)**
Net decrease in cash and cash equivalents		**(3.9)**	**(112.6)**
Effect of exchange rate changes on opening balances		(1.4)	5.2
Cash and cash equivalents at beginning of period		62.5	169.9
Cash and cash equivalents at end of period		**57.2**	**62.5**

Analysis of cash and cash equivalents

	Note	As at 31 March 2007 £m	As at 31 March 2006 £m
Cash at bank and in hand	16	72.0	70.2
Short term deposits	16	59.4	43.5
Cash and cash equivalents as per the balance sheet		131.4	113.7
Bank overdrafts	20	(74.2)	(51.2)
Cash and cash equivalents per the cash flow statement		**57.2**	**62.5**
Bank borrowings	20	(60.0)	(50.0)
Net (debt)/cash		**(2.8)**	**12.5**

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.

The consolidated financial statements of the Burberry Group have been prepared in accordance with EU endorsed International Financial Reporting Standards ("IFRS"), IFRIC interpretations and parts of the Companies Act 1985 applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 7 *Financial Instruments: Disclosures*	Effective for annual periods beginning on or after 1 January 2007
IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after 1 January 2009
IFRIC 8 *Scope of IFRS 2*	Effective for annual periods beginning on or after 1 May 2006
IFRIC 9 *Reassessment of Embedded Derivatives*	Effective for annual periods beginning on or after 1 June 2006
IFRIC 10 *Interim Financial Reporting and Impairment*	Effective for annual periods beginning on or after 1 November 2006
IFRIC *11 IFRS 2: Group and Treasury Share Transactions*	Effective for annual periods beginning on or after 1 March 2007
IFRIC 12 *Service Concession Arrangements*	Effective for annual periods beginning on or after 1 January 2008

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

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.

Basis of consolidation

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

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

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.

Critical judgements in applying accounting policies

No critical judgements, apart from those involving estimations (see below) have been made by management in the process of applying the entity's accounting policies which would have a significant effect on the amounts recognised in the financial statements.

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.

1. Basis of preparation (continued)

Key sources of estimation uncertainty (continued)

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 fashion 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 age and condition of stock, as well as anticipated saleability.

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 during the ordinary course of business for which the ultimate tax determination is uncertain. 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 in which such determination is made.

2 Accounting policies

The consolidated financial information of Burberry Group plc and all its subsidiaries have been prepared in accordance with IFRS.

The principal accounting policies of the Group are:

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

2 Accounting policies (continued)

b) Share schemes

Share 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 used for the number of options expected to vest. The estimate of the number of options expected to vest is revised at each balance sheet date.

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

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

c) Operating leases

Burberry Group is a lessee of property. Gross rental expenditure in respect of operating leases is recognised on a straight line basis over the period of the leases. Certain rental 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.

e) Pension costs

Defined benefit schemes

Prior to the demerger of the Group from GUS plc on 13 December 2005, it was agreed that existing employees 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.

Eligible employees of Burberry Group also participate in defined benefit schemes in the USA, France and Taiwan.

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

2 Accounting policies (continued)

e) Pension costs (continued)

Net actuarial gains and losses are recognised directly to equity through the Group Statement of Recognised Income and Expense ("SORIE").

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.

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

Trademarks and trading licences

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.

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.

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

2 Accounting policies (continued)

g) Property, plant and equipment (continued)

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) 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).

i) 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.

j) Taxation including deferred tax

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

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

Deferred tax 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 tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are not discounted.

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

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

2 Accounting policies (continued)

k) 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.

l) Financial instruments

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

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised costs and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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.

2 Accounting policies (continued)

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

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

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

m) 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 recognised in the Income Statement in the period in which they arise, except where these exchange differences form part of a net investment in overseas subsidiaries of 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 each month at the weighted average exchange rate for the month according to the phasing of the Group's trading results. The weighted average exchange rate is used, as it is considered to approximate the actual exchange rates on the date of the transactions. The assets and liabilities of such undertakings are translated at the year end exchange rates. Differences arising on the retranslation of the opening net investment in subsidiary companies, and on the translation of their results, are taken directly to the foreign currency translation reserve within equity.

2 Accounting policies (continued)

m) Foreign currency translation (continued)

The principal exchange rates used were as follows:

	Weighted average profit rate		Closing rate	
	Year to h 2007	Year to 31 March 2006	Year to 31 March 7	Year to 31 March 2006
Euro	1.49	1.46	1.47	1.43
US dollar	1.91	1.78	1.97	1.74
Hong Kong dollar	14.80	13.77	15.38	13.48
Korean won	1,801	1,797	1,851	1,688

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 199.2: £1 in the year to 31 March 2007 (2006: Yen 190.3: £1).

n) 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.

3 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, Austria, Belgium, Czech Republic, Hungary 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	Europe (excl Spain)		North America		Asia Pacific		Spain		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Gross segment turnover	433.9	386.6*	192.6	173.2	214.4	182.4	177.6	154.9	1,018.5	897.1*
Inter-segment turnover	(163.2)	(153.2)*	-	-	(1.3)	(0.5)	(3.7)	(0.5)	(168.2)	(154.2)*
Turnover	**270.7**	**233.4**	**192.6**	**173.2**	**213.1**	**181.9**	**173.9**	**154.4**	**850.3**	**742.9**
Operating profit	**96.9**	**104.8**	**12.5**	**6.3**	**34.2**	**22.3**	**13.4**	**21.1**	**157.0**	**154.5**
Net finance (charge)/income									(0.7)	2.5
Profit before taxation									**156.3**	**157.0**
Taxation									(46.1)	(50.6)
Attributable profit for the year									**110.2**	**106.4**

* Restated for inter-segment turnover and reclassifications

The results above are stated after the allocation of costs of a Group wide nature. Inter-segment turnover reflects the level of revenue between segments and is priced at arm's length.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Segmental analysis (continued)

(b) Other segmental items - by origin of business

	Europe (excl Spain)		North America		Asia Pacific		Spain		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Capital expenditure	15.8	13.6	11.5	12.5	3.0	2.9	8.5	4.0	38.8	33.0
Depreciation	10.1	8.1		7.7	2.5	2.3	5.1	4.4	25.9	22.5
Impairment charge	-	0.6	-	0.2	-	-	-	-	-	0.8
Release of impairmentcharge	(0.7)	(0.4)	(0.3)	-	-	-	-	-	(1.0)	(0.4)
Amortisation	1.6	1.7	-	-	0.1	0.1	0.1	0.2	1.8	2.0
Other non-cash expenses										
- share based payments	3.9	2.8	2.8	1.9	2.1	1.4	2.0	1.3	10.8	7.4

(c) Assets and liabilities - by origin of business

As at 31 March	Europe		North America		Asia Pacific		Spain		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Segmental assets	179.1	142.3	143.8	145.9	33.8	28.7	120.1	103.5	476.8	420.4
Segmental liabilities	(97.2)	(67.5)	(29.2)	(25.5)	(11.9)	(12.8)	(35.1)	(30.9)	(173.4)	(136.7)
Net operating assets	**81.9**	**74.8**	**114.6**	**120.4**	**21.9**	**15.9**	**85.0**	**72.6**	**303.4**	**283.7**
Goodwill									116.9	121.2
Deferred consideration for acquisitions									(10.0)	(11.5)
Net (debt)/cash									(2.8)	12.5
Taxation (including deferred taxation)									(10.6)	(19.3)
Net assets									**396.9**	**386.6**

(ii) Secondary segment - analysis by class of business (being the channels to market)

Year to 31 March	Retail		Wholesale		Total Retail and Wholesale		Licensing		Total	
	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m	2007 £m	2006 £m
Gross segment turnover	410.1	318.5	495.0	469.4*	905.1	787.9*	86.1	81.1	991.2	869.0*
Inter-segment turnover	-	-	(140.9)	(126.1)*	(140.9)	(126.1)*	-	-	(140.9)	(126.1)*
Turnover	**410.1**	**318.5**	**354.1**	**343.3**	**764.2**	**661.8**	**86.1**	**81.1**	**850.3**	**742.9**
Other segmental items										
Segment assets					470.3	415.1*	6.5	5.3*	476.8	420.4
Capital expenditure					38.7	33.0	0.1	-	38.8	33.0

* Restated for inter-segment turnover and reclassifications

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:

Turnover by product	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Womenswear	305.5	249.3
Menswear	227.0	206.2
Accessories	211.2	189.2
Other	20.5	17.1
Wholesale and Retail	**764.2**	**661.8**
Licensing	**86.1**	**81.1**
Total	**850.3**	**742.9**
Number of directly operated stores, concessions and outlets open at 31 March	292	262

3 Segmental analysis (continued)

(iii) Additional information (continued)

Turnover by destination	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Europe (excluding Spain)	229.8	191.5
North America	196.5	177.9
Asia Pacific	167.5	144.6
Spain	151.8	134.1
Rest of the World	18.6	13.7
Wholesale and Retail	**764.2**	**661.8**
Licensing	**86.1**	**81.1**
Total	**850.3**	**742.9**

4 Net operating expenses

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Distribution costs	(149.7)	(125.9)
Administrative expenses (excluding Atlas and Treorchy costs)	(185.5)	(156.3)
Project Atlas costs	(21.6)	(11.1)
Treorchy closure costs	(6.5)	-
Property rental income under operating leases	0.1	0.1
(Loss)/profit on disposal of property, plant and equipment	(1.1)	1.6
Total	**(364.3)**	**(291.6)**

Operating profit for the year to 31 March 2007 includes a charge of £21.6m (2006: £11.1m) relating to Project Atlas, our major infrastructure redesign initiative, which was announced in May 2005. This project is designed to create a substantially stronger platform to support long term operations and growth of the Group through the redesign of Burberry's business processes and systems. Investment in Project Atlas is expected to total around £50m over the three year period to 31 March 2008.

Burberry completed the closure of its polo shirt manufacturing facility in Treorchy, South Wales, during the year. This resulted in closure costs of £6.5m. Included in the closure costs is £1.2m representing the present value of 10 annual payments of £150,000 Burberry has committed to the local Treorchy community (discounted at 4.5%).

5 Profit before taxation

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Profit before taxation is stated after charging/(crediting):		
Depreciation of property, plant and equipment		
- within cost of sales	1.5	1.3
- within distribution costs	3.2	2.8
- within administrative expenses	21.2	18.4
Amortisation of trademarks and other intellectual property (included in administrative expenses)	1.8	2.0
Fixed asset impairment charge relating to certain retail assets (included in administrative expenses)	-	0.8
Release of asset impairment charge relating to certain retail assets (included in administrative expenses)	(1.0)	(0.4)
Loss/(profit) on disposal of property, plant and equipment	1.1	(1.6)
Project Atlas costs	21.6	11.1
Treorchy closure costs	6.5	-
Employee costs (see note 28)	174.0	148.7
Operating lease rentals		
- minimum lease payments	31.0	27.7
- contingent rents	17.1	13.5
Auditor's remuneration	2.8	2.4
Net exchange (gain)/loss included in income statement	(0.6)	0.8

5 Profit before taxation (continued)

Auditor's remuneration is further analysed as follows:

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Audit services in respect of the accounts of the company	0.4	0.4
Audit services in respect of the accounts of subsidiary companies	0.5	0.5
Other audit services supplied pursuant to legislation	0.1	0.4
Services relating to taxation		
- compliance services	0.1	0.2
- advisory services	1.7	0.9
Total	**2.8**	**2.4**

All work performed by the external auditors is controlled by an authorisation policy agreed by the Audit Committee. The over-riding principle precludes the auditors from engaging in non-audit services that would compromise their independence. Non-audit services are provided by the auditors where they are best placed to provide the service due to their previous experience or market leadership in a particular area.

6 Net finance (charge)/income

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Bank interest income	4.6	3.7
Interest income receivable from GUS related companies	-	0.1
Other interest income	0.9	0.5
Interest receivable and similar income	5.5	4.3
Interest expense on bank loans and overdrafts	(6.2)	(1.8)
Net finance (charge)/income	**(0.7)**	**2.5**

7 Taxation

(i) Analysis of charge for the year recognised in the Income Statement

Analysis of charge for the year	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Current tax		
UK corporation tax		
Current tax on income for the year to 31 March 2007 at 30% (2006: 30%)	28.8	30.4
Double taxation relief	(7.4)	(7.1)
Adjustments in respect of prior years	1.9	0.4
	23.3	23.7
Foreign tax		
Current tax on income for the year	31.6	28.3
Adjustments in respect of prior years	(4.2)	1.4
Total current tax	**50.7**	**53.4**

NOTES TO THE FINANCIAL STATEMENTS (continued)

7 Taxation (continued)

Analysis of charge for the year	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Deferred tax		
UK deferred tax		
Origination and reversal of temporary differences	(3.2)	0.2
Adjustments in respect of prior years	(0.6)	0.7
	(3.8)	0.9
Foreign deferred tax		
Origination and reversal of temporary differences	(1.5)	(1.9)
Effects of changes in tax rates	0.5	-
Adjustments in respect of prior years	0.2	(1.8)
Total deferred tax	**(4.6)**	**(2.8)**
Total tax on profit	**46.1**	**50.6**

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

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Current tax		
Current tax credit on share options (retained earnings)	(2.8)	(0.6)
Current tax credit on exchange differences on loans (foreign currency translation reserve)	(1.3)	(0.2)
Total current tax recognised in equity	**(4.1)**	**(0.8)**
Deferred tax		
Deferred tax charge/(credit) on cash flow hedges recognised directly to equity (hedging reserve)	3.0	(1.5)
Deferred tax credit on cash flow hedges settled during the year (hedging reserve)	(1.8)	(0.2)
Deferred tax credit on share options (retained earnings)	(4.4)	(2.0)
Deferred tax charge on actuarial gains/losses recognised during the year (retained earnings)	-	0.2
Deferred tax credit on exchange differences on loan (foreign currency translation reserve)	(0.2)	-
Total deferred tax recognised in equity	**(3.4)**	**(3.5)**

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 2007 £m	Year to 31 March 2006 £m
Tax at 30% on profit before taxation	46.9	47.1
Rate adjustments relating to overseas profits	(0.9)	(0.9)
Permanent differences	2.1	3.6
Tax losses for which no deferred tax recognised	0.2	-
Adjustments in respect of prior years	(2.7)	0.8
Adjustments to deferred tax relating to changes in tax rates	0.5	-
Total taxation	**46.1**	**50.6**

The advanced pricing agreement in relation to internal sales between the UK and USA, previously under negotiation with the UK and USA Competent Authorities, has been finalised in the period. The net tax benefit to the Group has been recognised as a prior year adjustment to the current tax charge. 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. Any liability arising after 1 April 2002 will be payable by the Burberry Group.

8 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 and Treorchy costs are also disclosed to indicate the underlying profitability of Burberry Group.

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Attributable profit for the year before Atlas and Treorchy costs	130.0	114.8
Effect of Atlas and Treorchy costs (after taxation)	(19.8)	(8.4)
Attributable profit for the year	**110.2**	**106.4**

The weighted average number of ordinary shares represents the weighted average number of Burberry Group plc ordinary shares in issue throughout the year, excluding ordinary shares held in Burberry Group's Employee share option plans ("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.

	Year to 31 March 2007 Millions	Year to 31 March 2006 Millions
Weighted average number of ordinary shares in issue during the year	437.8	464.4
Dilutive effect of the share incentive schemes	8.3	13.2
Diluted weighted average number of ordinary shares in issue during the year	446.1	477.6

Basic earnings per share	Year to 31 March 2007 Pence	Year to 31 March 2006 Pence
Basic earnings per share before Atlas and Treorchy costs	**29.7**	**24.7**
Effect of Atlas and Treorchy costs	(4.5)	(1.8)
Basic earnings per share	25.2	**22.9**

Diluted earnings per share	Year to 31 March 2007 Pence	Year to 31 March 2006 Pence
Diluted earnings per share before Atlas and Treorchy costs	**29.1**	**24.1**
Effect of Atlas and Treorchy costs	(4.4)	(1.8)
Diluted earnings per share	24.7	**22.3**

9 Dividends

		Year to 31 March 2007 £m	Year to 31 March 2006 £m
Prior year final dividend paid (5.5p per share (2006: 4.5p))	- GUS group	-	14.2
	- other shareholders	24.0	7.3
Interim dividend paid (2.875p per share (2006: 2.5p))	- other shareholders	12.5	11.3
Total		**36.5**	**32.8**

A final dividend in respect of the year to 31 March 2007 of 7.625p (2006: 5.5p) per share, amounting to £33.1m (2006: £24.0m), 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 2 August 2007 to shareholders on the register at the close of business on 6 June 2007.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Intangible assets

Cost	Goodwill £m	Trademarks and trading licences £m	Computer software £m	Total £m
As at 1 April 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**
Effect of foreign exchange rate changes	(4.4)	(0.3)	(0.1)	(4.8)
Additions	0.1	0.7	3.8	4.6
As at 31 March 2007	**116.9**	**12.4**	**13.8**	**143.1**
Accumulated amortisation				
As at 1 April 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**
Effect of foreign exchange rate changes	-	-	(0.2)	(0.2)
Charge for the year	-	0.9	0.9	1.8
As at 31 March 2007	**-**	**4.1**	**5.4**	**9.5**
Net book value				
As at 31 March 2007	**116.9**	**8.3**	**8.4**	**133.6**
As at 31 March 2006	121.2	8.8	5.4	135.4

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 2007 £m	As at 31 March 2006 £m
Spain	86.9	89.1
Korea	22.3	23.1
Other	7.7	9.0
Total	**116.9**	**121.2**

At 31 March 2007 no impairment was recognised (2006: nil), as the recoverable amount of the goodwill for each cash generating unit exceeded its carrying value. The recoverable amount has been determined based on value in use. The value in use calculation was performed using pre-tax cash flow projections for 2007/08 based on financial plans approved by management. No growth has been assumed in the cash flow projections beyond this period (2006: 3%). These cash flows were discounted at a rate of 13.6% (2006: 12%) for Spain and 12.5% (2006: 11%) for Korea, being Burberry Group's pre-tax weighted average cost of capital adjusted for country specific tax rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11 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 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**
Effect of foreign exchange rate changes	(5.8)	(7.1)	(5.1)	(0.2)	(18.2)
Additions	0.3	11.3	17.8	4.8	34.2
Disposals	(0.1)	(2.1)	(7.6)	-	(9.8)
Reclassifications	-	0.6	1.4	(2.0)	-
As at 31 March 2007	**80.5**	**74.1**	**118.7**	**5.3**	**278.6**
Accumulated depreciation					
As at 1 April 2005	**17.2**	**13.3**	**50.9**	**-**	**81.4**
Effect of foreign exchange rate changes	0.7	0.6	1.6	-	2.9
Charge for the 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**
Effect of foreign exchange rate changes	(1.3)	(1.6)	(2.9)	-	(5.8)
Charge for the year	3.0	5.4	17.5	-	25.9
Impairment release on certain retail assets	-	(0.1)	(0.9)	-	(1.0)
Disposals	(0.1)	(1.4)	(7.1)	-	(8.6)
As at 31 March 2007	**22.3**	**20.5**	**73.1**	**-**	**115.9**
Net book value					
As at 31 March 2007	**58.2**	**53.6**	**45.6**	**5.3**	**162.7**
As at 31 March 2006	65.4	53.2	45.7	2.7	167.0

During the year to 31 March 2007 the trading performance of certain European and North American retail store assets which had previously been impaired were reviewed and due to improved trading conditions it was considered appropriate to release £1m of the impairment provision (2006: £0.4m charge). This release has been included in net operating expenses in the Income Statement. The impairment release was based on a review of the value of the assets in use and on pre-tax cash flows attributable to these assets in accordance with IAS 36 “Impairment of Assets”. Pre-tax cash flow projections are based on financial plans approved by management and extrapolated beyond the budget year to the anticipated lease exit dates using growth rates and inflation rates appropriate to each country’s economic conditions. The pre-tax discount rate used in these calculations was 11%.

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 £144m (based on closing exchange rates at 31 March 2007). This valuation is 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.

The lease of the new global headquarters was signed in December 2006. The agreement incorporated a put option with the developers of the site for the Haymarket property with an exercise date of no later than 31 March 2008. The agreed price is in excess of the current net book value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Deferred taxation

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

	As at 31 March 2007 £m	As at 31 March 2006 £m
Deferred tax assets	24.6	16.6
Deferred tax liabilities	(10.2)	(10.5)
Net amount	**14.4**	**6.1**

The movement in the deferred tax account is as follows:

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
As at 1 April	6.1	2.0
Impact of adopting IAS 32 and IAS 39	-	(1.5)
Effect of foreign exchange rate changes	0.3	(0.7)
Credited to the income statement	4.6	2.8
Credited to equity	3.4	3.5
End of the year	**14.4**	**6.1**

The movement in deferred tax assets and liabilities during the year, without taking into consideration the off-setting of balances within the same tax jurisdiction, 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 1 April 2005	**16.4**	**(1.4)**	**(0.4)**	**-**	**(0.7)**	**0.8**	**14.7**
Impact of adopting IAS 32 and IAS 39	-	-	-	(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)
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**
Effect of foreign exchange rate changes	(1.6)	0.2	-	-	-	(0.1)	(1.5)
Charged/(credited) to the income statement	(0.8)	(0.1)	-	-	0.2	0.1	(0.6)
Charged to equity	-	-	-	0.1	-	-	0.1
As at 31 March 2007	**13.6**	**(1.7)**	**-**	**0.1**	**(0.5)**	**(2.7)**	**8.8**

NOTES TO THE FINANCIAL STATEMENTS (continued)

12 Deferred taxation (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 31 March 2005	**0.1**	**6.4**	**8.1**	**-**	**0.2**	**1.9**	**16.7**
Impact of adopting IAS 32 and IAS 39	-	-	-	(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
(Charged)/credited 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**
Effect of foreign exchange rate changes	(0.1)	(0.6)	-	-	-	(0.5)	(1.2)
(Charged)/credited to the income statement	0.9	(0.6)	2.6	0.2	0.1	0.8	4.0
(Charged)/credited to equity	-	-	4.4	(1.1)	-	0.2	3.5
Other movements	-	-	(3.2)	-	-	3.2	-
As at 31 March 2007	**0.9**	**6.8**	**12.7**	**(0.9)**	**0.1**	**3.6**	**23.2**

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of £6.7m (2006: £5.8m) in respect of losses amounting to £18.6m (2006: £25.2m) that can be carried forward against the future taxable income. These losses have no set expiry date. Other deferred tax assets of £0.1m (2006: £0.1m) were not recognised in respect of temporary differences totalling £0.1m (2006: £0.1m), 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 £85.1m (2006: £70.6m) relating to the unremitted earnings of subsidiaries on the grounds that no remittance of profits retained at 31 March 2007 is required or intended in such a way that incremental tax would arise.

13 Trade and other receivables

	As at 31 March 2007 £m	As at 31 March 2006 £m
Non-current		
Deposits and prepayments	5.1	4.2
Total non-current trade and other receivables	**5.1**	**4.2**
Current		
Trade receivables	114.7	93.6
Provision for doubtful debts	(3.5)	(4.2)
Net trade receivables	111.2	89.4
Other receivables	9.4	3.1
Prepayments and accrued income	16.6	15.5
Total current trade and other receivables	**137.2**	**108.0**
Total trade receivables	**142.3**	**112.2**

The principal non-current receivable of £2.1m is due within five years from the balance sheet date, with the remainder due at various stages after this.

All of the non-current receivables are non-interest bearing.

14 Stock

	As at 31 March 2007 £m	As at 31 March 2006 £m
Raw materials	17.7	15.6
Work in progress	5.9	6.4
Finished goods	126.2	102.2
Total stock	**149.8**	**124.2**

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Cost of stock recognised as an expense during the year	333.5	298.9
Stock physically destroyed in the year	1.1	1.3
Reversal during the year of previous write downs of stock	(5.6)	(3.4)
Total cost of sales	**329.0**	**296.8**

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

15 Derivative financial instruments

The Group Income Statement is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, the Group has a policy of hedging foreign currency denominated transactions by entering into forward 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. As at 31 March 2007 and 2006 there were no forward exchange contract balances outstanding designated in a fair value hedging relationship.

Derivative financial assets

	As at 31 March 2007 £m	As at 31 March 2006 £m
Forward foreign exchange contracts - cash flow hedges at beginning of year	1.7	-
Impact of adopting IAS 32 and IAS 39	-	5.8
Effect of foreign exchange rate changes	(0.1)	0.2
Arising during the year and taken directly to equity	9.7	2.4
Released from equity to the income statement during the year	(8.1)	(6.7)
Forward foreign exchange contracts - cash flow hedges at end of year	3.2	1.7
Forward foreign exchange contracts - held for trading	0.8	0.6
Equity swap contracts – held for trading	1.3	0.5
Total current position	**5.3**	**2.8**
Cash flow hedge gains expected to be recognised in the following 12 months	3.2	1.7

NOTES TO THE FINANCIAL STATEMENTS (continued)

15 Derivative financial instruments (continued)

Derivative financial liabilities

	As at 31 March 2007 £m	As at 31 March 2006 £m
Forward foreign exchange contracts - cash flow hedges at beginning of year	(2.0)	-
Impact of adopting IAS 32 and IAS 39	-	(1.6)
Effect of foreign exchange rate changes	0.2	(0.2)
Arising during the year and taken directly to equity	(0.6)	(4.7)
Released from equity to the income statement during the year	2.2	4.5
Forward foreign exchange contracts - cash flow hedges at end of year	(0.2)	(2.0)
Forward foreign exchange contracts - held for trading	(0.3)	(0.1)
Total current position	**(0.5)**	**(2.1)**
Cash flow hedge losses expected to be recognised in the following 12 months	(0.2)	(2.1)

	As at 31 March 2007 £m	As at 31 March 2006 £m
Notional principal amounts of the outstanding forward foreign exchange contracts	190.1	120.4
Notional principal amounts of the outstanding equity swap contracts	2.3	3.7
Movement on the non-designated hedges for the year recognised within net finance income in the income statement	0.9	0.6
Movement on the non-designated hedges for the year recognised within the foreign currency translation reserve	-	(0.1)

Gains and losses on cash flow hedges recognised directly to the hedging reserve within equity		
Gains / (losses) deferred in equity	9.1	(3.8)
Transferred from equity to the income statement	(5.9)	(0.7)
Tax impact	(1.2)	1.7
Movement in hedging reserve for the year (refer to note 22)	2.0	(2.8)

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

16 Cash and cash equivalents

	As at 31 March 2007 £m	As at 31 March 2006 £m
Cash at bank and in hand	72.0	70.2
Short term deposits	59.4	43.5
Total	**131.4**	**113.7**

The effective interest rate on short term deposits was 3.6% (2006: 3.4%). These deposits have an average maturity of 28 days (2006: 9 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 Long term liabilities

	As at 31 March 2007 £m	As at 31 March 2006 £m
Unsecured:		
Other creditors, accruals and deferred income	10.4	9.6
Deferred consideration for acquisition	-	5.0
Total	**10.4**	**14.6**

Deferred consideration due after more than one year arose from the acquisition of the trade and certain assets of the Burberry business in Korea. This is payable within the next financial year and has been included within current trade and other payables, refer to note 21.

17 Long term liabilities (continued)

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

	As at 31 March 2007 £m	As at 31 March 2006 £m
Between one and two years	1.9	5.9
Between two and three years	1.0	1.4
Between three and four years	0.9	1.2
Between four and five years	0.8	0.9
Over five years	5.8	5.2
Total	**10.4**	**14.6**

18 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 2007 £m	***As at 31 March 2006*** £m
Defined benefit schemes		
GUS defined benefit scheme UK *	-	-
Supplemental executive retirement plan US**	1.4	1.4
Retirement indemnities France	0.2	0.2
Burberry (Taiwan) Co Ltd retirement scheme	0.2	0.2
Total obligation	**1.8**	**1.8**

*This plan has been renamed the Experian Pension Plan.

**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.

No prepayments or obligations in respect of defined contributions schemes were outstanding at 31 March 2007 (2006: nil).

The pension costs charged to the Income Statement in respect of the main plans were:

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Defined benefit schemes		
GUS defined benefit scheme UK	0.1	0.4
Supplemental executive retirement plan US	0.2	0.3
Defined contribution schemes		
GUS money purchase pension plan UK	-	1.0
Burberry stakeholder plan UK	2.0	-
Burberry money purchase plan US	0.7	0.9
Burberry Asia Limited retirement scheme	0.2	0.1
Total pension costs	**3.2**	**2.7**

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

18 Retirement benefit obligations (continued)

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. A full valuation is currently been carried out by Watson Wyatt Limited, the results of which are expected late summer 2007.

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 2007 has been based on an update of the 31 March 2004 valuation. As at 31 March 2007, 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. Burberry Group's proportionate share of this excess was approximately £5.7m (2006: £1.8m) 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 the Group recognise all gains/losses immediately through the SORIE.

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 2007 %	Year to 31 March 2006 %
Discount rate	5.4%	4.9%
Rate of inflation	3.1%	2.9%
Rate of salary increases	4.9%	4.7%
Rate of increases for pensions in payment and deferred pensions	3.1%	2.9%
Expected return on plan assets	7.1%	6.8%

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 2007 %	Expected return for the next year %	Asset allocation at 31 March 2006 %	Expected return for the next year %
Equities	69%	8.1%	67%	7.9%
Fixed and index linked income securities	16%	5.0%	30%	4.6%
Other	15%	4.6%	3%	3.7%
Total	**100%**	**7.1%**	**100%**	**6.8%**

18 Retirement benefit obligations (continued)

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:

- 19.1 years at age 65 for a male currently aged 65;
- 22.2 years at age 65 for a female currently aged 65;
- 19.8 years at age 65 for a male currently aged 50; and
- 23.1 years at age 65 for a female currently aged 50.

On 6 April 2006, "A-Day", the Rules of the Scheme were changed to allow members to exchange a higher percentage of their pension for cash on retirement. As such, it has been assumed that non-retired members will exchange a higher percentage, 25% (2006: 20%), of their pension for cash on retirement. This results in a reduction in the year end liabilities of £0.2m. This reduction has been treated as follows:

- £0.1m of this reduction will impact the year end Balance Sheet via the SORIE; and
- £0.1m of this reduction will impact the year end Balance Sheet via the Group Income Statement.

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 2007 £m	As at 31 March 2006 £m
Present value of Burberry Group's share of scheme's liabilities (the defined benefit obligation)	(37.8)	(39.4)
Market value of Burberry Group's share of scheme's assets	43.5	41.2
Net assets	5.7	1.8
Restricted recognition of assets	(5.7)	(1.8)
Net assets recognised in the balance sheet	-	-

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

	As at 31 March 2007 £m	As at 31 March 2006 £m	As at 31 March 2005 £m
Defined benefit obligation	(37.8)	(39.4)	(35.0)
Market value of assets	43.5	41.2	34.0
Surplus/(deficit)	5.7	1.8	(1.0)
Restricted recognition of assets	(5.7)	(1.8)	-
Deficit recognised	-	-	(1.0)
Experience adjustments on liabilities	2.7	(3.3)	(2.9)
Experience adjustments on assets	0.7	5.8	1.4

The amounts recognised in the Income Statement are as follows:

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Current service cost (included in net operating costs)	(1.0)	(0.9)
Past service cost (included in net operating costs)	0.1	-
Interest cost (included in net finance income)	(1.9)	(1.8)
Expected return on plan assets (included in net finance income)	2.7	2.3
Total recognised in the income statement	**(0.1)**	**(0.4)**

18 Retirement benefit obligations (continued)

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

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Gain/(loss) on liabilities	2.7	(3.3)
Gain on assets	0.7	5.8
Total gain	**3.4**	**2.5**
Restricted recognition of assts	(3.9)	(1.8)
Total (loss)/gain included in the SORIE in the year	(0.5)	0.7
Cumulative actuarial gain included in the SORIE	**(1.3)**	**(0.8)**

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

	As at 31 March 2007 £m	As at 31 March 2006 £m
Opening defined benefit obligation	(39.4)	(35.0)
Current service cost	(1.0)	(0.9)
Past service cost	0.1	-
Interest cost	(1.9)	(1.8)
Employee contributions	(0.2)	(0.2)
Actuarial gain/(loss) on liabilities	2.7	(3.3)
Benefits paid	1.9	1.8
Closing defined benefit obligation	**(37.8)**	**(39.4)**

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

	As at 31 March 2007 £m	As at 31 March 2006 £m
Opening fair value of plan assets	41.2	34.0
Expected return	2.7	2.3
Actuarial gain on assets	0.7	5.8
Contributions paid by employer	0.6	0.7
Contributions paid by employee	0.2	0.2
Benefits paid	(1.9)	(1.8)
Closing fair value of plan assets	**43.5**	**41.2**

The actual return on the plan assets in the year to 31 March 2007 was £3.4m (2006: £8.1m).

Burberry Group's total contributions to the GUS Pension Scheme during the year ended 31 March 2007 were £0.6m (2006: £0.7m). The Group expects to contribute £0.4m in the year to 31 March 2008.

Supplemental executive retirement plan US

Rose Marie Bravo participates in this plan 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 3.5% (2006: 4.6%).

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.

18 Retirement benefit obligations (continued)

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 joined the defined contribution scheme operated under local labour ordinance.

Defined contribution schemes

Burberry stakeholder plan UK

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

Burberry money purchase plan US

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.

GUS money purchase pension plan UK

This plan 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. On 31 March 2006 all Burberry employees ceased to be members of this scheme. Employees had the choice to transfer their pensions to the Burberry stakeholder plan UK or a private scheme of their choice. The assets of this scheme were held separately from those of GUS plc in an independently administered fund.

19 Provisions for liabilities and charges

	Property obligations £m
As at 1 April 2006	2.8
Released during the year	(2.8)
As at 31 March 2007	**-**

Property obligations arose from the portfolio of leasehold obligations which the Group maintains and were released during the year.

20 Bank overdrafts and borrowings

	As at 31 March 2007 £m	As at 31 March 2006 £m
Unsecured:		
Bank overdrafts	74.2	51.2
Bank borrowings	60.0	50.0
Total	**134.2**	**101.2**

Bank overdrafts represent balances on cash pooling arrangements in the Group. The effective interest rate for the overdraft balances is 4.5% (2006: 5.3%).

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 2007, the amount drawn down was £60m (2006: £50m). This drawdown was made in Sterling. Interest is charged on this loan at LIBOR plus 0.325% per annum and the borrowing matures on 22 June 2007.

21 Trade and other payables

	As at 31 March 2007 £m	As at 31 March 2006 £m
Unsecured:		
Trade creditors	56.8	28.0
Other taxes and social security costs	6.4	6.0
Other creditors	19.4	18.9
Accruals and deferred income	78.1	67.5
Deferred consideration for acquisitions	10.0	6.5
Total	**170.7**	**126.9**

Deferred consideration of £10m (2006: £5m) due within one year arose from the acquisition of the Burberry business in Korea. Deferred consideration arising on the Burberry Taiwan acquisition was fully paid in the year (2006: £1.5m).

22 Share capital and reserves

Authorised share capital	2007 £m	2006 £m
1,999,999,998,000 (2006: 1,999,999,998,000) Ordinary Shares of 0.05p (2006: 0.05p) each	1,000.0	1,000.0
	1,000.0	**1,000.0**

Allotted, called up and fully paid share capital	Number	£m
Ordinary Shares of 0.05p (2006: 0.05p) each		
As at 1 April 2006	**446,712,463**	**0.2**
Allotted on exercise of IPO Option Scheme awards during the year	3,347,919	-
Cancelled on repurchase of own shares	(12,281,000)	-
As at 31 March 2007	**437,779,382**	**0.2**

NOTES TO THE FINANCIAL STATEMENTS (continued)

22 Share capital and reserves (continued)

Statement of changes in shareholders' equity

	Ordinary share capital £m	Share premium account £m	Hedging reserve £m	Foreign currency translation reserve £m	Capital reserve £m	Retained earnings £m	Total equity £m
Balance as at 1 April 2005	**0.3**	**136.1**	**2.6**	**5.4**	**24.9**	**304.9**	**474.2**
Cash flow hedges – losses deferred in equity	-	-	(3.8)	-	-	-	(3.8)
Foreign currency translation differences	-	-	-	15.6	-	-	15.6
Net 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/(expense) recognised directly in equity	-	-	(2.3)	15.8	-	0.5	14.0
Cash flow hedges - transferred to the income statement	-	-	(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 paid in 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**
Cash flow hedges – gains deferred in equity	-	-	9.1	-	-	-	9.1
Foreign currency translation differences	-	-	-	(28.9)	-	-	(28.9)
Net actuarial losses on defined benefit pension scheme	-	-	-	-	-	(0.5)	(0.5)
Tax on items taken directly to equity	-	-	(3.0)	1.5	-	-	(1.5)
Net income/(expense) recognised directly in equity	-	-	6.1	(27.4)	-	(0.5)	(21.8)
Cash flow hedges - transferred to the income statement	-	-	(5.9)	-	-	-	(5.9)
Tax on items transferred from equity	-	-	1.8	-	-	-	1.8
Attributable profit for the year	-	-	-	-	-	110.2	110.2
Total recognised income/(expenses) for the year	-	-	2.0	(27.4)	-	109.7	84.3
Employee share option scheme					-		
- value of share options granted	-	-	-	-	-	10.8	10.8
- tax on share options granted	-	-	-	-	-	7.2	7.2
- exercise of share options	-	15.5	-	-	-	-	15.5
- price differential on exercise of shares	-	-	-	-	-	(14.9)	(14.9)
Share buy back costs	-	-	-	-	-	(62.2)	(62.2)
Sale of shares by ESOPs	-	-	-	-	-	6.1	6.1
Transfer between reserves	-	-	-	-	0.2	(0.2)	-
Dividend paid in the year	-	-	-	-	-	(36.5)	(36.5)
Balance as at 31 March 2007	**0.2**	**167.3**	**1.8**	**(6.2)**	**26.0**	**207.8**	**396.9**

During the year to 31 March 2007, the Company repurchased and subsequently cancelled 12,281,000 Ordinary Shares, representing 2.7% of the issued share capital, at a total cost of £62.2m. The nominal value of the shares was £6,141 which was transferred to a capital redemption reserve. Retained earnings were reduced by £62.2m. The share repurchase programme commenced in January 2005 and since then a total of 72,865,230 Ordinary Shares have been repurchased and subsequently cancelled. This represents 14.5% of the original issued share capital at a total cost of £312.2m. The nominal value of the shares was £36,433 and has been transferred to a capital redemption reserve and the retained earnings have been reduced by £312.2m since this date.

23 Financial commitments

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

	As at 31 March 2007			As at 31 March 2006		
	Land and buildings £m	Other £m	Total £m	Land and buildings £m	Other £m	Total £m
Amounts falling due						
Within one year	30.5	1.0	31.5	26.0	1.3	27.3
Between two and five years	84.5	1.5	86.0	80.2	1.5	81.7
After five years	103.0	0.8	103.8	112.2	2.7	114.9
Total	**218.0**	**3.3**	**221.3**	**218.4**	**5.5**	**223.9**

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.

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.

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

	As at 31 March 2007 Land and buildings £m	As at 31 March 2006 Land and buildings £m
Amounts falling due:		
Within one year	0.1	0.1
Between two and five years	0.4	0.4
After five years	0.8	0.9
Total	**1.3**	**1.4**

24 Capital commitments

	As at 31 March 2007 £m	As at 31 March 2006 £m
Capital commitments contracted but not provided for		
- property, plant and equipment	2.5	3.5
- intangible assets	0.1	0.1
Total	**2.6**	**3.6**

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

25 Contingent liabilities

Since 31 March 2006 the following changes to material contingent liabilities have occurred:

During the year ended 31 March 2007, Burberry Group has provided guarantee letters to certain raw material suppliers. The total value of these guarantees, which expire on 31 July 2007, amount to £1.1m at 31 March 2007.

Other material contingent liabilities reported at 31 March 2006 remain unchanged and were:

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 any deficit in this scheme. When Burberry leaves the scheme it will be required to pay an exit charge calculated pursuant to Section 75 or 75A 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. Refer to note 18.

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.

26 Acquisition of Subsidiaries

On 18 October 2006 Burberry Group acquired a shell company in the Czech Republic to enable the Group to buy a lease for a new store.

The net asset value of the shell company acquired was £4,197 consisting of cash of £4,095 and a debtor of £102. No adjustments were made to the fair values of the assets. Total consideration paid in cash was £71,727 resulting in goodwill of £67,530.

The new store contributed £0.1m to turnover and a total loss of £0.1m was realised for the period since its opening in March 2007. Due to the fact that Burberry has never had presence in this country trading history is not available and therefore the estimated financial impact on the Group had the store opened on 1 April 2006 cannot be determined.

27 Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash and short term deposits, external borrowings, 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 Group Treasury who seek to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs and to invest in cash assets safely and profitably. This is done in close co-operation with the Group's operating units. Group Treasury does not operate as a profit centre and transacts only in relation to the underlying business requirements. The policies of the Group Treasury department are reviewed and approved by the Board of Directors. The Group uses derivative instruments to hedge certain risk exposures.

(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 15). The Group's accounting policy in relation to derivative instruments is 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.

(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 20.

(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 expose the Group to cash flow interest rate risk.

27 Financial risk management (continued)

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:

Primary financial instruments held or issued to finance the Group's operations:	As at 31 March 2007 Book and Fair value £m	As at 31 March 2006 Book and Fair value £m
Cash at bank and in hand	72.0	70.2
Short term deposits	59.4	43.5
Total financial assets	**131.4**	**113.7**
Interest bearing borrowings	(134.2)	(101.2)
Other financial liabilities	(20.4)	(23.9)
Total financial liabilities	**(154.6)**	**(125.1)**
Total net financial liabilities	**(23.2)**	**(11.4)**

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

Derivative financial instruments held to manage the currency profile	2007 £m	2006 £m
Forward foreign currency contracts		
- book value	4.8	0.7
- fair value	4.8	0.7

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 2007			
Sterling	4.9	2.3	7.2
US dollar	14.9	-	14.9
Euro	36.2	3.2	39.4
Other currencies	16.0	53.9	69.9
Total financial assets	**72.0**	**59.4**	**131.4**
Floating rate assets	64.2	59.4	123.6
Balances for which no interest is paid	7.8	-	7.8

27 Financial risk management (continued)

(b) Interest rate risk profile (continued)

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 financial assets	**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

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

Balances for which no interest is paid is made up of Sterling £1.2m (2006: £3.8m), Euros £nil (2006: £0.2m) and Hong Kong dollars £3.2m (2006: £2.2m), Singapore dollars £3.0m (2006: £3.3m), Japanese Yen £nil (2006: £3.9m) and Malaysian Ringgit £0.4m (2006: £0.4m). These amounts arise principally due to the timing of transactions.

<u>Financial liabilities</u>

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 2007			
Sterling	62.1	12.1	74.2
US dollar	14.5	6.6	21.1
Euro	20.2	1.0	21.2
Other currencies	37.4	0.7	38.1
Total financial liabilities	**134.2**	**20.4**	**154.6**
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 financial liabilities	**101.2**	**23.9**	**125.1**

The floating rate financial liabilities at 31 March 2007 and 2006 incurred interest based on relevant national LIBOR equivalents.

The floating rate financial liabilities at 31 March 2007 and 2006 include overdraft balances of £74.2m (2006: £51.2m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Financial risk management (continued)

(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:

As at 31 March 2007	Debt £m	Deferred consideration £m	Other financial liabilities £m	Total £m
In one year or less, or on demand	134.2	10.0	-	144.2
In more than one year, but not more than two years	-	-	1.9	1.9
In more than two years, but not more than three years	-	-	1.0	1.0
In more than three years, but not more than four years	-	-	0.9	0.9
In more than four years, but not more than five years	-	-	0.8	0.8
In more than five years	-	-	5.8	5.8
Total financial liabilities	**134.2**	**10.0**	**10.4**	**154.6**

As at 31 March 2006	Debt £m	Deferred consideration £m	Other financial liabilities £m	Total £m
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 financial liabilities	**101.2**	**11.5**	**12.4**	**125.1**

All deferred consideration is payable in cash.

Other financial liabilities principally relate to accrued lease liabilities £7.9m (2006: £6.3m), property related accruals £0.9m (2006: £1.2m) which are included in other creditors falling due after more than one year, and provisions for certain property obligations £nil (2006: £2.8m), which are included in provisions.

(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 recognised in the Income Statement.

	ɪreign currency monetary assets/(liabilities)				
Functional currency of operation	Sterling £m	US dollar £m	Euro £m	Other currencies £m	Total £m
As at 31 March 2007					
Sterling	-	(11.9)	(8.7)	(36.4)	(57.0)
Other currencies	2.0	0.2	(1.3)	-	0.9
Total	**2.0**	**(11.7)**	**(10.0)**	**(36.4)**	**(56.1)**
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**

28 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 2007 £m	Year to 31 March 2006 £m
Wages and salaries	143.5	124.7
Social security costs	16.5	13.9
Share based compensation (all awards settled in shares)	10.8	7.4
Other pension costs (see note 18)	3.2	2.7
Total	**174.0**	**148.7**

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

	Year to 31 March 2007 Number of employees	Year to 31 March 2006 Number of employees
Europe (excluding Spain)	2,415	2,149
North America	1,026	902
Asia Pacific	735	683
Spain	1,042	917
Total	**5,218**	**4,651**

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 option pricing model with a discount applied to this value, based on information obtained by running a Monte Carlo simulation model on the scheme.

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

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.

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 had six months from the date of the demerger to exercise these options. At 31 March 2007 there were no shares under option (2006: 129,748 at a weighted average exercise price of 413p).

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

On 23 June 2006 a Save As You Earn (SAYE) share option scheme offering Burberry Group plc ordinary shares was introduced for all employees in the UK, Europe and Asia Pacific, with a further option scheme offered to all American employees of Burberry Group plc on 30 March 2007. For both of the grants made, employees are entitled to save for three years.

The options granted on 23 June 2006 and 30 March 2007 are exercisable from 30 September 2009 and 31 March 2010 respectively 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 Burberry Group plc share from the London Stock Exchange.

28 Employee costs (continued)

The fair value of the options granted has been calculated using a risk-free rate of 4.9%, expected volatility of 25.2% and an expected dividend yield of between 1.6% and 2.1%. The fair values per option for these grants were determined as £1.20 and £2.97 respectively.

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.

Movements in the number of SAYE share options in Burberry Group 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 2007	Weighted average exercise price	Number of shares under option as at 31 March 2006
Outstanding at 1 April	-	-	-	-
Granted during the year	354.8	788,517	-	-
Lapsed during the year	350.5	(25,949)	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 March	**354.9**	**762,568**	-	**-**
Exercisable at 31 March	**-**	**-**	**-**	**-**

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

Option term	Exercise price	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
23 June 2006 - 1 September 2009	350.5	663,584	-
30 March 2007 - 31 March 2010	384.5	98,984	-
Total		**762,568**	**-**

Share options and awards

i) GUS schemes

Share options were 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.

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 had six months from the date of the demerger to exercise these options. At 31 March 2007 there were no shares remaining under option (2006: 200,443 at a weighted average exercise price of 616.6p).

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. The exercise price of these share options is £nil.

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

28 Employee costs (continued)

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

	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
Outstanding at 1 April	3,610,000	6,571,640
Lapsed during the year	(6,250)	(911,640)
Exercised during the year	(3,102,500)	(2,050,000)
Outstanding at 31 March	**501,250**	**3,610,000**
Exercisable at 31 March	**-**	**12,499**

The weighted average share price at the date of the exercises in the year was £4.56.

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

Option term	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
11 July 2002 - 11 July 2012	501,250	3,610,000
Total	**501,250**	**3,610,000**

iii) Burberry Senior Executive Restricted Share Plan 2004

Between August and November 2006 awards in respect of a total of 2,352,546 (2006: 2,413,206) 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 (currency adjusted), 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. The exercise price of these share options is £nil.

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 are as follows:

	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
Outstanding at 1 April	3,565,477	1,342,592
Granted during the year	2,352,546	2,413,206
Lapsed during the year	(25,000)	(190,321)
Outstanding at 31 March	**5,893,023**	**3,565,477**
Exercisable at 31 March	**-**	**-**

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

Option term	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
2 August 2004 - 2 August 2014	1,322,592	1,322,592
21 July 2005 - 21 July 2015	1,709,411	1,734,411
31 January 2006 - 31 January 2016	508,474	508,474
10 August 2006 - 10 August 2016	2,278,837	-
1 September 2006 - 1 September 2016	20,000	-
27 November 2006 - 27 November 2016	53,709	-
Total	**5,893,023**	**3,565,477**

28 Employee costs (continued)

For the awards made on 10 August 2006 the fair value for those restricted shares with the PBT performance condition was determined as £4.76 by applying the Black-Scholes option pricing model. A discount was applied to the restricted shares with the TSR performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined to be £2.87.

For the awards made on 1 September 2006, the fair value for those restricted shares with the PBT performance condition was determined as £4.84 by applying the Black-Scholes option pricing model. A discount was applied to the restricted shares with the TSR performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined to be £2.87.

For the awards made on 27 November 2006, the fair value for those restricted shares with the PBT performance conditions was determined as £5.90 by applying the Black-Scholes option price model. A discount was applied to the restricted shares with the TSR performance condition, by applying the Monte Carlo model. The fair value for these restricted shares was determined to be £3.56.

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:

	10 August 2006	1 September 2006	27 November 2006
Weighted average share price at grant date	£4.76	£4.84	£5.90
Exercise price	-	-	-
Option life	Equivalent to vesting period	Equivalent to vesting period	Equivalent to vesting period
Expected volatility	29.5%	29.5%	29.5%
Risk free interest rate	4.9%	4.9%	5.0%

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 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. The exercise price of these share options is £nil.

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

	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
Outstanding at 1 April	782,500	-
Granted during the year	-	782,500
Outstanding at 31 March	**782,500**	**782,500**
Exercisable at 31 March	-	**-**

28 Employee costs (continued)

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

Option term	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
21 July 2005 - 21 July 2015	782,500	782,500
Total	782,500	**782,500**

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 will be met by the issue of ordinary shares of the Company.

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

	Weighted average exercise price	Number of shares under option as at 31 March 2007	Weighted average exercise price	Number of shares under option as at 31 March 2006
Outstanding at 1 April	230.0p	842,505	230.0p	2,456,683
Exercised during the year	230.0p	(245,419)	230.0p	(1,614,178)
Outstanding at 31 March	**230.0p**	**597,086**	**230.0p**	**842,505**
Exercisable at 31 March	**230.0p**	**597,086**	**230.0p**	**842,505**

The weighted average share price at the date of the exercises in the year was £5.51.

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 2007	Number of shares under option as at 31 March 2006
11 July 2002 - 11 July 2012	230.0p	597,086	842,505
Total		**597,086**	**842,505**

vi) The Burberry Group plc Executive Share Option Scheme 2002

During the previous financial years options were granted to directors in respect of ordinary shares in the Company under the Executive Share Option Scheme. No options were granted in the current financial year (2006: 833,333 at an exercise price of £4.23).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 Employee costs (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 2007	Weighted average exercise price	Number of shares under option as at 31 March 2006
Outstanding at 1 April	342.0p	3,935,492	315.4p	4,183,378
Granted during the year	-	-	423.0p	833,333
Lapsed during the year	356.2p	(36,660)	361.7p	(221,091)
Exercised during the year	330.1p	(1,876,983)	274.8p	(860,128)
Outstanding at 31 March	**357.6p**	**2,021,849**	**342.0p**	**3,935,492**
Exercisable at 31 March	**307.0p**	**932,740**	**320.0p**	**1,093,276**

The weighted average share price at the date of the exercises in the year was £5.73.

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 2007	Number of shares under option as at 31 March 2006
13 June 2003 - 12 June 2013	258.0p	551,915	1,411,509
2 August 2004 - 2 August 2014	378.0p	914,379	1,690,650
21 July 2005 - 21 July 2015	423.0p	555,555	833,333
Total		**2,021,849**	**3,935,492**

vii) All Employee Share Plan

In previous financial years all employees were offered options over ordinary shares in the Company at a nil exercise price under an all Employee Share Plan. No new awards were made in the year to 31 March 2007 (2006: 369,240).

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.

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

	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
Outstanding at 1 April	1,017,580	1,029,100
Granted during the year	-	369,240
Lapsed during the year	(79,350)	(143,040)
Exercised during the year	(243,260)	(237,720)
Outstanding at 31 March	**694,970**	**1,017,580**
Exercisable at 31 March	**94,150**	**52,650**

28 Employee costs (continued)

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

Option term	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
12 July 2002 - 18 July 2082*	43,450	52,650
30 August 2003 - 18 July 2082*	50,700	101,350
30 August 2003 - 7 October 2006	-	174,800
30 July 2004 - 30 October 2007	189,150	212,650
20 August 2004 - 18 July 2082*	128,350	148,250
10 June 2005 - 10 June 2008	173,920	200,720
1 September 2005 - 18 July 2082*	109,400	127,160
Total	**694,970**	**1,017,580**

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

viii) Co-investment Scheme

In previous financial years executive directors and other senior management were able to defer receipt of all or part of their annual bonus and invest it in ordinary shares in the Company with up to a 2:1 match based on individual and Group performance during the year. The matching share awards do not vest for three years and are forfeited if the executive leaves due to resignation within that period. The exercise price of these share options is £nil. No new awards were made in the year to 31 March 2007 (2006: 984,473).

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

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

	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
Outstanding at 1 April	1,074,522	221,703
Granted during the year	-	984,473
Lapsed during the year	**(3,049)**	(131,654)
Outstanding at 31 March	**1,071,473**	**1,074,522**
Exercisable at 31 March	-	-

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

Option term	Number of shares under option as at 31 March 2007	Number of shares under option as at 31 March 2006
29 July 2004 - 29 July 2009	213,996	213,996
21 July 2005 - 21 July 2015	857,477	860,526
Total	**1,071,473**	**1,074,522**

29 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. The only related party transactions relate to total compensation paid to key management, who is defined as the executive and non-executive directors. The total compensation paid during the year was as follows:

	Year to 31 March 2007 £m	Year to 31 March 2006 £m
Salaries and short term benefits	6.2	4.3
Post-employment benefits	0.5	0.5
Share based compensation	2.3	3.8
Total	**9.0**	**8.6**

In addition, aggregate gains on the exercise of options in the year to 31 March 2007 were £14.2m (2006: £8.4m).

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.

30 Events after the balance sheet date

On 21 March 2007, the UK Chancellor announced that the full rate of UK corporation tax will be reduced from 30% to 28% from April 2008. However this rate reduction has not been substantively enacted at the balance sheet date and therefore as required by IAS 12, deferred tax assets and liabilities (as set out in note 12) relating to the UK have been measured at the currently enacted tax rate of 30%. The deferred tax charge that will arise on substantive enactment of the proposed change to the corporation tax rate is not expected to have a material financial effect on the Group's effective tax rate for 2007/08.

NOTES TO THE FINANCIAL STATEMENTS (continued)

31 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 SASU	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 (Austria) GmbH	Austria	Luxury goods retailer
Burberry Antwerp N.V.	Belgium	Luxury goods retailer
Burberry Czech Republic s.r.o.	Czech Republic	Luxury goods retailer
Burberry Hungary kft	Hungary	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	Republic of Korea	Luxury goods retailer and wholesaler
Burberry (Taiwan) Co Ltd	Taiwan	Luxury goods retailer
Burberry (Malaysia) Sdn Bhd	Malaysia	Luxury goods retailer
Burberry Japan K.K.	Japan	Luxury goods retailer, wholesaler and licensor

*Held directly by Burberry Group plc.

All principal subsidiary undertakings are wholly owned as at 31 March 2007 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 2007. Non-operating intermediate holding and financing companies are excluded from the list above.

FIVE YEAR SUMMARY

Turnover by product	2003* UK GAAP £m	2004 UK GAAP £m	2005 UK GAAP £m	2005 IFRS £m	2006 IFRS £m	2007 IFRS £m
Womenswear	197.9	225.7	242.1	242.1	249.3	305.5
Menswear	162.8	190.1	194.5	194.5	206.2	227.0
Accessories (including Childrenswear)	169.5	178.4	185.0	185.0	189.2	211.2
Other	5.1	14.6	15.5	15.5	17.1	20.5
Licensing	58.3	67.0	78.4	78.4	81.1	86.1
Total	**593.6**	**675.8**	**715.5**	**715.5**	**742.9**	**850.3**
Turnover by destination	£m	£m	£m	£m	£m	£m
Europe (excluding Spain)	159.3	191.0	188.0	188.0	216.3	257.1
North America	140.5	162.4	165.9	165.9	180.4	199.3
Asia Pacific	147.0	162.6	186.6	186.6	201.4	223.1
Spain	143.4	155.8	168.4	168.4	134.1	151.8
Other	3.4	4.0	6.6	6.6	10.7	19.0
Total	**593.6**	**675.8**	**715.5**	**715.5**	**742.9**	**850.3**
Turnover by operation	£m	£m	£m	£m	£m	£m
Retail	228.4	257.4	265.2	265.2	318.5	410.1
Wholesale	306.9	351.4	371.9	371.9	343.3	354.1
Licensing	58.3	67.0	78.4	78.4	81.1	86.1
Total	**593.6**	**675.8**	**715.5**	**715.5**	**742.9**	**850.3**
Profit by operation	£m	£m	£m	£m	£m	£m
Wholesale and Retail	64.3	86.6	98.5	94.3	96.2	111.7
Licensing	52.4	56.0	67.0	67.0	69.4	73.4
EBIT (before Atlas and Treorchy costs)**	**116.7**	**142.6**	**165.5**	**161.3**	**165.6**	**185.1**
Net interest income/(expense)	(0.9)	2.3	4.9	4.9	2.5	(0.7)
Project Atlas costs	-	-	-	-	(11.1)	(21.6)
Treorchy closure costs	-	-	-	-	-	(6.5)
Exceptional/material items	(22.0)	2.2	0.8	-	-	-
Foreign currency loss on loans with GUS group (pre-flotation)	(2.3)	-	-	-	-	-
Goodwill amortisation	(6.4)	(6.8)	(6.8)	-	-	-
Profit on ordinary activities before taxation	**85.1**	**140.3**	**164.4**	**166.2**	**157.0**	**156.3**
Tax on profit on ordinary activities	(32.9)	(47.3)	(54.5)	(54.3)	(50.6)	(46.1)
Profit on ordinary activities after taxation/Attributable profit	**52.2**	**93.0**	**109.9**	**111.9**	**106.4**	**110.2**
Margin analysis	%	%	%	%	%	%
Gross margin as percentage of turnover	56.0	57.9	59.3	59.3	60.0	61.3
Wholesale and Retail EBIT** as a percentage of turnover	12.0	14.2	15.5	14.8	14.5	14.6
Licence EBIT** as a percentage of turnover	89.9	83.6	85.5	85.5	85.6	85.2
Total EBIT** as a percentage of turnover	19.7	21.1	23.1	22.5	22.3	21.8

*Year to 31 March 2003 has 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.

FIVE YEAR SUMMARY (continued)

Earnings and dividends	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	2007 IFRS pence per share
Basic earnings per share	10.5	18.8	22.2	22.7	22.9	25.2
Basic earnings per share before goodwill amortisation and exceptional/Atlas and Treorchy costs	14.9	19.8	23.4	n/a	24.7	29.7
Diluted earnings per share	10.3	18.4	21.8	22.2	22.3	24.7
Diluted earnings per share before goodwill amortisation and exceptional/Atlas and Treorchy costs	14.6	19.4	23.0	n/a	24.1	29.1
Dividend per share (UK GAAP on an accruals basis)	3.0	4.5	6.5	n/a	n/a	n/a
Dividend per share (IFRS on a paid basis)	n/a	n/a	n/a	5.0	7.0	8.4
Diluted weighted average number of ordinary shares in issue during the year	506.2m	505.9m	504.6m	504.5m	477.6m	446.1m
Dividend cover (UK GAAP on an accruals basis)**	5.0	4.4	3.7	n/a	n/a	n/a
Dividend cover (IFRS on a paid basis)**	n/a	n/a	n/a	4.5	3.2	3.0

Balance sheet	2003* UK GAAP £m	2004 UK GAAP £m	2005 UK GAAP £m	2005 IFRS £m	2006 IFRS £m	2007 IFRS £m
Fixed assets, investments and other intangible assets	162.4	150.7	167.0	165.6	181.2	179.5
Working capital (excluding cash and borrowings)	73.8	66.6	77.7	79.6	121.7	136.1
Other long term liabilities	(10.6)	(10.8)	(9.8)	(10.1)	(19.2)	(12.2)
Net operating assets	**225.6**	**206.5**	**234.9**	**235.1**	**283.7**	**303.4**
Goodwill	122.8	110.6	107.1	114.0	121.2	116.9
Deferred consideration for acquisitions	(31.7)	(31.7)	(32.7)	(32.7)	(11.5)	(10.0)
Cash at bank, net of overdraft and borrowings	79.6	157.9	169.9	169.9	12.5	(2.8)
Taxation (including deferred taxation)	0.4	1.0	(2.9)	(14.0)	(19.3)	(10.6)
Dividends payable	(10.0)	(14.9)	(21.7)	-	-	-
Net assets	**386.7**	**429.4**	**454.6**	**472.3**	**386.6**	**396.9**

Cash flow	2003* UK GAAP £m	2004 UK GAAP £m	2005 UK GAAP £m	2005 IFRS £m	2006 IFRS £m	2007 IFRS £m
Operating profit before goodwill amortisation and exceptional items	116.7	142.6	165.5	161.3	165.6	185.1
Project Atlas costs	-	-	-	-	(11.1)	(21.6)
Treorchy closure costs	-	-	-	-	-	(6.5)
Operating profit after Atlas and Treorchy costs	116.7	142.6	165.5	161.3	154.5	157.0
Depreciation, impairment and trademark amortisation charges	19.0	28.5	24.4	24.4	24.9	26.7
Loss/(profit) on disposal of fixed assets and similar non-cash charges	1.5	1.7	(1.1)	(1.1)	(1.6)	0.1
Charges in respect of employee share incentive schemes	-	3.6	5.3	9.5	7.4	10.8
(Increase)/decrease in stocks	5.2	(7.5)	(12.8)	(12.9)	(17.8)	(33.4)
(Increase)/decrease in debtors	(2.4)	(1.5)	(7.3)	(7.3)	2.2	(33.8)
Increase/(decrease) in creditors	25.0	18.2	1.5	1.5	(21.2)	32.8
Net cash inflow from operations before capital expenditure	165.0	185.6	175.5	175.4	148.4	160.2
Purchase of tangible and intangible fixed assets	(55.7)	(28.8)	(37.2)	(37.2)	(30.7)	(34.3)
Sale of tangible fixed assets	0.2	-	3.1	3.1	3.6	1.1
Net cash inflow from operations adjusted for capital expenditure	**109.5**	**156.8**	**141.4**	**141.3**	**121.3**	**127.0**

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

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

SHAREHOLDER INFORMATION

Registrar

Enquiries concerning shareholdings, changes of name or address should be referred to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA, telephone: 0870 600 3970 (or +44 121 415 7047 from outside the UK). In addition, Lloyds TSB Registrars offer a range of shareholder information online at www.shareview.co.uk. A textphone facility for those with hearing difficulties is available by calling: 0870 600 3950 (or +44 121 415 7028 from outside the UK).

Share price information

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

Share dealing

Lloyds TSB Registrars offer a telephone and internet dealing service. Terms and conditions and details of the commission charges are available on request.

For telephone dealing call 0870 850 0852 between 8.00am and 4.30pm, Monday to Friday, and for internet dealing visit www.shareview.co.uk/dealing. Shareholders will need the reference number shown on their share certificate.

Internet

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

Amalgamating Share Accounts

Shareholders who have more than one account due to inconsistency in name and address details may avoid duplicate mailings by asking the Registrar to amalgamate their holdings.

Dividends

The interim dividend of 2.875p per share was paid on 1 February 2007. A final dividend of 7.625p has been proposed and, subject to approval at the Annual General Meeting on 12 July 2007, will be paid on 2 August 2007 to shareholders on the register at the close of business on 6 July 2007.

Dividends can be paid by BACS directly into a UK bank account, with the tax voucher being sent to the shareholders address. A dividend mandate form is available from Lloyds TSB Registrars or from www.shareview.co.uk.

Electronic Communication

Shareholders have the opportunity to receive all shareholder documentation in electronic form via the internet, rather than through the post in paper format. Shareholders who decide to register for this option will receive an email each time a statutory document is published on the internet. Shareholders who wish to receive documentation in electronic form should register at www.shareview.co.uk.

ShareGift

Shareholders with a small number of shares, the value of which makes it uneconomic to sell them, may wish to consider donating their shares to charity through ShareGift, a donation scheme operated by The Orr Mackintosh Foundation (registered charity 1052686). A ShareGift donation form can be obtained from Lloyds TSB Registrars. Further information is available at www.sharegift.org or by telephone on +44 (0) 20 7828 1151.

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Financial calendar

Final dividend record date	6 July 2007
First quarter trading update	11 July 2007
Annual General Meeting	12 July 2007
Final dividend payment	2 August 2007
First half trading update	October 2007
Interim results announcement	November 2007
Third quarter trading update and interim dividend record date	January 2008
Interim dividend payment	February 2008
Second half trading update	April 2008
Preliminary results announcement	May 2008