

# Burberry Group plc

## Second Half 2006/07 Trading Update

17 April 2007. Burberry Group plc reports on trading for the six months ended 31 March 2007.

### Second Half Financial Highlights

- Total revenue increased 20% on an underlying<sup>(1)</sup> basis, 19% reported<sup>(2)</sup>
- Retail sales increased 24% underlying, driven by new and existing stores
  - in the fourth quarter, retail sales increased 24% underlying
- Wholesale revenue increased 17% underlying
- Licensing revenue increased 15% underlying
- 2007/08 outlook
  - 13% approximate average retail space expansion
  - Mid-teens first half underlying wholesale revenue growth
  - Broadly flat underlying licensing revenue relative to 2006/07

### Revenue by geographical origin (statutory accounts format)

£ million	Second Half	
	2006/07	2005/06 <sup>(2)</sup>
Europe (excluding Spain)	144	111
Spain	87	68
North America	113	98
Asia Pacific	115	107
Total	458	384

### Revenue by channel of distribution

£ million	Second Half				Full Year			
	Reported		% change		Reported		% change	
	2006/07	2005/06 <sup>(2)</sup>	Reported	Underlying <sup>(1)</sup>	2006/07	2005/06 <sup>(2)</sup>	Reported	Underlying <sup>(1)</sup>
Retail	241	192	25	24	410	319	29	24
Wholesale	172	151	14	17	354	343	3	8
Licence	45	41	9	15	86	81	6	10
Total	458	384	19	20	850	743	14	15

<sup>(1)</sup> Second half underlying figures exclude the financial effect of the portion of Burberry's business in Spain affected by the retail conversion, in both reporting periods. In addition, full year underlying figures also include the first half adjustment for the Taiwan acquisition. For both periods, underlying figures are calculated at the same exchange rates used in the 2005/06 reported results. Burberry initiated actions related to the retail conversion in Spain during the third quarter of 2005/06.

<sup>(2)</sup> As reported in the 2005/06 Preliminary Results presentation and statement, following change in foreign currency translation methodology.

Commenting on the trading results, Angela Ahrendts, Chief Executive Officer, stated, *“Burberry achieved outstanding 20% underlying revenue growth in the second half. The significant investment initiated during this financial year to enhance the luxury component of the brand, advance retail expansion and evolve our operating model is driving accelerated growth across all three channels: retail, wholesale and licensing. This performance is consistent with our expectations for the full financial year.”*

## **Total revenue**

Total revenue in the second half ended 31 March 2007 increased 20% on an underlying basis (i.e. adjusted for (i) the portion of Burberry’s business in Spain affected by the retail conversion and (ii) exchange rate differences). The Spain retail conversion shifts sales from Burberry’s wholesale channel to its retail channel. In determining underlying performance, the financial effect of the affected business is excluded from both reporting periods. Total reported revenue increased 19%. Adverse exchange rate movements reduced the reported gain by approximately five percentage points.

## **Second Half Retail and Wholesale Revenue by Geographical Market (Destination)**

<b>Region</b>	<b>Reported</b>		<b>% change</b>	
	<b>2006/07</b>	<b>2005/06<sup>(2)</sup></b>	<b>Reported</b>	<b>Underlying</b>
Europe (excluding Spain)	120	99	21	21
Spain	77	60	28	5
North America	115	100	15	25
Asia Pacific	92	78	18	24
Other	10	6	74	74
<b>Total</b>	<b>413</b>	<b>343</b>	<b>20</b>	<b>21</b>

## **Retail**

Retail sales accounted for approximately 53% of total revenue in the second half.

Second half retail sales increased 24% underlying, 25% reported. Comparable store sales increased 12%. Underlying average retail selling space increased approximately 14% in the half with the opening of six stores, a net eight concessions and one outlet. The Spain retail conversion contributed approximately eight percentage points of the reported gain. Currency movements reduced the reported gain by approximately six percentage points.

Retail sales in the fourth quarter increased 24% underlying, 25% reported. Comparable store sales increased 11% (against a 6% comparison) and underlying average selling space increased 13% in the quarter. The Spain retail conversion contributed approximately eight percentage points of the reported gain. Currency movements reduced the reported gain by approximately seven percentage points. During the quarter, Burberry opened four stores, including Manchester (UK), Prague (Czech Republic) and Seville (Spain), and a net three concessions.

In the fourth quarter, all regions achieved double-digit gains. In the US, performance was balanced between existing and new store contributions. Gains

at existing stores and concessions led excellent results in Continental European markets. In their second spring season, womenswear concessions in Spain demonstrated notable progress. The UK market, continuing to benefit from the Group's increased investment during the year, produced strong gains. Momentum in Asia Pacific continued, led by Hong Kong and other Southeast Asian markets.

Enthusiastic consumer response to spring merchandise following reduced end of season sale activity in January was a consistent factor underpinning performance in the fourth quarter. Outstanding outerwear sales, driven by updated styles and balanced assortments, led gains. Luxury handbags and runway apparel continued to experience excellent demand. Investment in design and development during the year has been a key factor enabling this product progress. Operationally, these initiatives were supported by a more frequent flow of new merchandise to stores relative to the comparative period and continued execution of a basic replenishment programme.

### **Wholesale**

Wholesale sales accounted for approximately 37% of total revenue in the second half.

The wholesale momentum of the first half gathered pace with the spring season. Wholesale sales increased 17% underlying in the second half with double-digit increases in most regions. Currency movements reduced the reported gain by approximately three percentage points. The US achieved excellent gains largely through increased penetration of core accounts. Sustained demand across the majority of markets, particularly Italy, Germany and Greece, drove strong performance in Europe. Spain was broadly flat in the half as ongoing channel dynamics continued to weigh on results. Stimulated by demand in the travel retail sector, wholesale sales in Asia achieved strong gains. Initial sales of global products in the Japanese market also contributed to growth. Emerging markets continued to show strength. Throughout the period, wholesale sales were boosted by initial success of the basic replenishment programme introduced in the third quarter and incremental orders associated with the new market calendar.

In conjunction with local franchise partners, the Group opened two stores in the half.

### **Licensing**

Licensing revenue in the half increased 15% on an underlying basis, 9% reported. Reported revenue was affected by adverse exchange rate movements relative to the previous period. In Japan, strong volume gains among apparel and other ongoing licences offset the effect of licence terminations, producing a good underlying gain for the period. Excellent growth in product licence revenue was led by fragrances, which benefited from introduction of the new *Burberry Summer* fragrance, as well as the ongoing effect of the 2006 *Burberry London* fragrance launches. The first collection under Burberry's new global eyewear agreement launched during the period. Supported by an extensive marketing campaign on a plan to distribution in 15,000 doors worldwide, eyewear

contributed significantly to product licence revenue in the half. Watches continued to demonstrate good progress in the period.

### **Operational efficiency**

The Group completed the closure of a Welsh manufacturing facility in March 2007, following a proposal made in September 2006. In the 2006/07 financial year, this will result in a cash cost of approximately £4.8 million to cover an enhanced redundancy package and outplacement and training services for affected employees, and a non-cash expense of approximately £1.7million associated with asset write-offs. Expense savings associated with the elimination of manufacturing losses are expected to be approximately £1.5 million annually.

Project Atlas continues on track. During the second half, key system deployments were implemented as scheduled, with minor changes to originally planned phasing in accordance with the pace of change in Burberry's business. Atlas expenses are expected to total approximately £21 million for the 2006/07 financial year. Associated expense benefits are anticipated at approximately £6 million.

### **2007/08 outlook**

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

- **Retail.** 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.** 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 license product categories is expected to be offset by decreases at others, reflecting product cycle stages and channel transitions.
  - On a reported basis, yen-related exchange rate movements will reduce licensing revenue by approximately £7 million.
- **Project Atlas.** In keeping with alterations to system 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, the Group anticipates aggregate expense benefits associated with Project Atlas of approximately £20 million in the period.
- **Capital expenditures.** Capital expenditures are budgeted at approximately £60 million.

Burberry will release its preliminary results for the year ended 31 March 2007 on 24 May 2007.

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