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CONFERENCE CALL PARTICIPANTS

Erwan Rambourg

HSBC - Analyst

Phil Clark

RCM Asset Management - Analyst

Warwick Okines

Deutsche Bank - Analyst

Nathalie Longuet

SG Securities - Analyst

Yasuhiro Yamaguchi

UBS - Analyst

PRESENTATION

Stacey Cartwright - Burberry Group Plc - CFO

Good morning, ladies and gentlemen. Welcome to our call. With me this morning is Fay Dodds, our IR Director. We'll give you a brief overview of our performance in the quarter before then taking your questions.

So in the third quarter we delivered sales growth of 26% on an underlying basis, and we're really pleased with the fact that that's meant double-digit wholesale growth in both retail and wholesale. As we cited at our interims in mid-November, this all important third quarter was expected to be an intense period of activity for Burberry and so it turned out to be with peak trading and our SAP implementation. We're going to first review the sales outcome for the quarter before then commenting on progress on the operational and strategic initiatives.

So looking first at retail sales, these grew by 14% underlying, with 6% comp store growth. This is modestly behind our plan. We didn't change the timing of our clearance activity, nor the extent of markdowns, but proportionately more inventory did get sold during our usual sale period. By region, the US saw continued double-digit comp growth with the high demographic urban markets performing the best. Europe saw positive comps but Spain went negative in the quarter reflecting a more difficult economic environment throughout the period.

If we look now at wholesale. The third quarter is a relatively small one for wholesale but we grew revenue by over 70% reflecting new and earlier deliveries and more replenishment. More importantly, we're now expecting over 20% growth in the second half as a whole, up from our previous guidance of mid-teens growth, and this reflects our growing confidence that we'll be able to deliver on a more timely basis post our conversion to SAP. Within this guidance, we expect Spain to remain below plan but the rest of Europe, the US, and the emerging markets to show growth in excess of 40% for the half. As we flagged in November, this level of high growth will incur additional warehousing and distribution costs.

And finally, licensing, where sales grew by 7% underlying helped by phasing differences. We are continuing to project broadly flat underlying revenue for the year.

From an operational point of view, I'm very pleased that SAP is now operational in warehousing and European retail, albeit with the normal daily post implementation issues.

As well as our strategy to pursue operational excellence, our progress in the third quarter was again driven by pursuing our other key strategies. So under leveraging the franchise; outerwear remains the star performer. For example, women's' overcoats in our US stores more than doubled in the period. Under intensifying non-apparel; we saw further excellent growth in the quarter in luxury bags and shoes as well as scarves where we've worked hard on product innovation. Under accelerating retail-led growth; we've opened a further six mainline stores in the quarter,

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including our fifth icon trial in Los Angeles. Under investing in under penetrated markets; we saw fantastic growth in emerging markets and have big plans for growth going forward in this area.

So to conclude, we're delighted with our solid double-digit growth in all channels and regions in the quarter. We're seeing stronger demand than ever for our products, especially in the emerging markets, and we have plenty of exciting global product and marketing initiatives in the pipeline to take us into 2008.

So, with that, let me now hand you over to the operator for questions.

QUESTION AND ANSWER

Operator

Thank you. (OPERATOR INSTRUCTIONS). The first question comes from the line of Erwan Rambourg. Please go ahead.

Erwan Rambourg - HSBC - Analyst

Hi again. Erwan Rambourg from HSBC. Do you -- can you give us any comments on current trading and how you're planning the year ahead for example, in terms of space growth?

Stacey Cartwright - Burberry Group Plc - CFO

Okay. You'll know Erwan we never talk about current trading because we're only a few days into the quarter in any event. But in terms of space growth, obviously, we've got for this final quarter of the year the other 13% space growth that we've indicated to bring us to an average of 12% for the half as a whole. We haven't given specific guidance for '08/'09 yet but we do see the opportunities continuing at the rate of the 90,000 square foot to 100,000 square foot a year that we've been adding over the course of the last year to 18 months.

Erwan Rambourg - HSBC - Analyst

Okay. And just looking at the comps in retail, 6% comps while clearing inventories. Do you have the notion of full price comps and what could that be for the quarter?

Stacey Cartwright - Burberry Group Plc - CFO

That's not something that we normally go into. We just talked about proportionately there's higher sales that have been done during the markdown period, so towards the end of the quarter. So that gives you a flavor of the trends if you like. But we haven't specifically gone into that. We'll obviously give you more on that when we come back at the year end.

Erwan Rambourg - HSBC - Analyst

Okay. And just a last one. Looking at the potential implications of clearing these inventories and implications on gross margin I believe that up to now you were comfortable with the level of EBIT for the year at 210. Where would your level of comfort be today?

Stacey Cartwright - Burberry Group Plc - CFO

We're still shooting for 210, we're simply flagging that it looks a bit of a stretch right now. So all of the markers that we've put down there in terms of retail sales just being modestly behind plan and the markdown impact. Plus of course the full half-year impact of the higher warehousing and distribution costs, just means that we may be a tad off that and a tad -- definition of tad is low single-digit.

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Erwan Rambourg - HSBC - Analyst

Okay. Thanks a lot.

Stacey Cartwright - Burberry Group Plc - CFO

Okay.

Operator

Thank you. (OPERATOR INSTRUCTIONS). We have a question coming through from the line of Phil Clark. Please go ahead.

Stacey Cartwright - Burberry Group Plc - CFO

Hi Phil.

Operator

Phil Clark, your line is live into the conference.

Phil Clark - RCM Asset Management - Analyst

Yes. Sorry. Hi. Morning.

Stacey Cartwright - Burberry Group Plc - CFO

Hi Phil.

Phil Clark - RCM Asset Management - Analyst

Happy New Year.

Stacey Cartwright - Burberry Group Plc - CFO

And to you.

Phil Clark - RCM Asset Management - Analyst

Just a quick question about space growth but specifically about the US. Historically, you've talked about very high or quick payback, partly due to landlord contributions. I just wondered, firstly, if you could give us just some commentary about what you're seeing on the ground today in terms of availability of space. And then secondly, a bit more broadly in terms of the outlook for space growth in the US. How much is that going to be driven by your strength of same store sales growth within the rest of the estate and how much are you going to be dictated by the macro outlook, which is obviously getting a lot of commentary at the moment?

Stacey Cartwright - Burberry Group Plc - CFO

Okay. There's quite a lot in there, Phil. I hope I pick up every point as we go through it. The first thing, in terms of pipeline of new opportunities in the US market, those continue to be very strong for us. So we've got projects going -- obviously in 2008 we've got the pipeline built, we've got

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projects into 2009 and 2010. So very comfortable with the number of opportunities there. We've always talked about it as an under penetrated market so if you like we're playing catch-up.

In terms of -- I think you were then on like-for-like and space growth in the US. Is that right? Is that where you were going, Phil?

Phil Clark - RCM Asset Management - Analyst

Well I was just trying to get a sense of if you -- the overall macro backdrop in the US, outside of your business at least at the moment, seems to be deteriorating and a lot of commentary is around that. So I wondered how much that dictates your plans on sales growth and how much is it -- you've said you've delivered double-digit in the US and is that the overriding factor?

Stacey Cartwright - Burberry Group Plc - CFO

I think what you'll find us being is quite sensitive to where we're seeing the greatest success right now, which is in those higher urban, high demographic markets. So we've called out that those have performed the strongest in the quarter for us. So we've talked before about our new icon concept, for example, and how that gives us the opportunity to add into existing markets. So the US where, or New York, where we've currently got two stores, Coach have got eight stores. You have the opportunity to infill where we know we have that high luxury consumer who is very, very responsive to all the innovation that we're putting in on both product and the marketing front.

Fay Dodds - Burberry Group Plc - IR Director

Phil, hi. It's Fay.

Phil Clark - RCM Asset Management - Analyst

Hi there.

Fay Dodds - Burberry Group Plc - IR Director

Really just to say that we're, clearly, mindful of economic conditions but, as Angela talked about in her presentation at the interims, we are under penetrated in the US from both a retail and wholesale point of view. And it's one of our key strategies going forward, obviously, always mindful of conditions.

Phil Clark - RCM Asset Management - Analyst

So if same store sales broadly continue at the same level you've seen year-to-date that's sufficient for you to continue on an aggressive space growth store in the US?

Stacey Cartwright - Burberry Group Plc - CFO

Well, I'll go back to what you said right upfront, Phil, in terms of the economics of getting in and out of stores in the US is much more favorable than in many other markets, particularly Europe. You're basing your economics around turnover-based rent, for example, rather than having to take on high fixed rents. The landlord is contributing to half the fit-out costs. So it is quite an effective route to expansion if you're trying to manage the risks as well.

Phil Clark - RCM Asset Management - Analyst

Great. Okay. Thanks very much.

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Stacey Cartwright - Burberry Group Plc - CFO

Thanks, Phil.

Operator

Thank you. The next question comes from line of Jamie Isenwater. Please go ahead.

Warwick Okines - Deutsche Bank - Analyst

Morning. It's Warwick Okines actually. Could I just ask a couple of questions please? The first is, could you give us a bit more color about the performance of the systems over peak dealing with larger volumes?

And then whether or not there's any change for the US Japan rollout that I think starts this month or next month?

Stacey Cartwright - Burberry Group Plc - CFO

Yes. Okay. From a systems point of view, I think our biggest sensitivity going into the third quarter was how shipping would perform out of the warehouse because we've heard lots and lots of stories about people who haven't been able to ship for extended periods of time. The good news is that we were able to ship. We're going through the learning curve to make it as efficient as possible but the demonstration for 74% growth in wholesale sales shows that we didn't stop shipping, we were able to keep going through it. Fay uses the phrase, we've survived SAP which was very encouraging. We wouldn't say we're through it completely because there's always the daily issues and niggles after the event but we're delighted to have come to this stage.

The one area that did give us some issues in the quarter was actually on the retail side. So where we were focusing on the warehousing we did find that on the retail side we had a glitch across our UK European retail stores late November when we couldn't get, on a daily basis, all of the replenishment into the stores that they wanted. Issues about whether they ran -- the files ran overnight. The files ran but ran allocating stock to the wrong stores so we had a couple of weeks of trying to sort that through. And again then saw the nice pick-up when we came out of that period and we got those European stores back on track. So we've managed through it on a daily basis I think it's fair to say, Warwick, and delighted we've come to this stage.

As far as the next stage of the rollout's concerned, we've actually prioritized Hong Kong ahead of everything else right now. We've got Hong Kong, which is starting in April. The project is underway right now but a go-live in Hong Kong for April, and then the US following fairly quickly thereafter.

Warwick Okines - Deutsche Bank - Analyst

Right. And any update on the search for warehousing solutions?

Stacey Cartwright - Burberry Group Plc - CFO

That we have the project team very much in action. So we've talked about the three regional hub strategy being the desired solution to currently carrying these excess costs. The team is very much in action. It's not going to impact the second half of the year. We'll see at what stage -- when we come back to give you further guidance on '08/'09 we'll be able to tell you then what kind of impact we think it might have in that year.

Warwick Okines - Deutsche Bank - Analyst

Okay. And just finally on the gross margin, obviously, in the second half lots of moving parts, quite a lot of the Atlas benefits coming through gross margin I assume?

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Stacey Cartwright - Burberry Group Plc - CFO

Yes.

Warwick Okines - Deutsche Bank - Analyst

What sort of -- if we strip out Atlas, if that's possible, what sort of help can you give us just thinking about the relative movements of mix and [bought] in the markdown?

Stacey Cartwright - Burberry Group Plc - CFO

As you say, Warwick, it is difficult because there are lots of moving parts. You can kind of bank the Atlas piece, so that in the first half added 150 basis points to gross margin. It'll add a similar amount in the second half. I've put in a little bit more on top but not too much; you won't see anything like the 300 basis point pick-up that you saw in the first half.

Warwick Okines - Deutsche Bank - Analyst

Right. And then mix and markdown?

Stacey Cartwright - Burberry Group Plc - CFO

Well, exactly. Mix will help but then the markdown, we've flagged here that markdown impact will be greater than it was this time last year.

Warwick Okines - Deutsche Bank - Analyst

But will it be greater than the mix benefit?

Stacey Cartwright - Burberry Group Plc - CFO

No. You should still get a net improvement but I'm saying it won't be that significant over and above what you've got from the Atlas benefit.

Warwick Okines - Deutsche Bank - Analyst

Understood. Thanks very much.

Stacey Cartwright - Burberry Group Plc - CFO

Okay. Thanks, Warwick.

Operator

Thank you. The next question comes from the line of Nathalie Longuet. Please go ahead.

Nathalie Longuet - SG Securities - Analyst

Yes. Hi. Good morning.

Stacey Cartwright - Burberry Group Plc - CFO

Hi, Natalie.

Nathalie Longuet - SG Securities - Analyst

I have a couple of question if I may. First of all, can you tell us which markets were attributable for the sales growth -- sorry, for the same store sales growth slowdown that we've seen, i.e., the slowdown from 11% in the first half to 6% in the third quarter? And also, can you comment on which markets did see the most markdowns? So that's the first question.

Stacey Cartwright - Burberry Group Plc - CFO

Okay. In terms of the sales slowdown, the most material market was the Spanish market. We've seen very positive like-for-like sales growth out of the retail side at the Spanish market. We'd already flagged that there were issues on the wholesale side. In this third quarter we saw a marked turnaround in terms of the Spanish numbers going negative, and that was quite a significant piece.

Nathalie Longuet - SG Securities - Analyst

Can you give us a bit more detail, i.e., what kind of decline are we talking about?

Stacey Cartwright - Burberry Group Plc - CFO

I think I'm going to leave it at significant, Nathalie. It was the -- Spain is now around, well, it's over 10% of our retail sales, and it was very significant from, if you like, double-digit growth into single-digit negative territory. So it was that kind of scale of turnaround. And we didn't see anything of that scale across any of the other markets. We are conscious that the glitch we had on the SAP aspects for retail through our UK European stores had a bit of a dent in that middle part of the period but we saw that pick up again nicely once we started to flow fresh product into the stores. So, at the end of the day, it's those new receipts that drive the sales.

Nathalie Longuet - SG Securities - Analyst

Okay. And in terms of markdowns?

Stacey Cartwright - Burberry Group Plc - CFO

In terms of markdowns, I think just generally everybody had -- we had set quite stretching targets for all of the regions. You're quite right. We've been enjoying double-digit like-for-likes up until now and we were targeting a number of the regions to still achieve that in this quarter, certainly going into the quarter. Given how economic conditions panned out over the quarter we actually think everybody performed pretty well.

So the level of markdowns, I think it's fair to say probably the Spanish market I've called out as one of the areas that will have the highest degree of inventory there, and then all of the markets just modestly more. We use the phrase modestly behind plan deliberately. That reflects all those other markets.

Nathalie Longuet - SG Securities - Analyst

The next question is on the infrastructure costs. As you mentioned that they continue to increase. I just wanted to clarify whether we do have to expect SG&A expenses to grow even more in the second half versus the 180 basis point in the first half?

Stacey Cartwright - Burberry Group Plc - CFO

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Yes. Essentially, what we flagged at the half-year was that we had implemented new warehousing and distribution facilities to deal with the overflow part way through the period. What you're going to see in this half is effectively the full year effect. So I think you can expect us to be a little bit over that 180 that we delivered in the first half.

Nathalie Longuet - *SG Securities - Analyst*

Will it be 200 to 250 kind of?

Stacey Cartwright - *Burberry Group Plc - CFO*

Yes. I think that's too specific at this stage, Nathalie. Just directionally we would say it's above 180.

Nathalie Longuet - *SG Securities - Analyst*

Okay. And the last question is whether you have any plan for accelerating share buyback in light of the share price fall?

Stacey Cartwright - *Burberry Group Plc - CFO*

Well we're obviously, always mindful of where the share price is and what the opportunities are. From a cash flow point of view, if we were maintaining our cash neutral position then we've essentially front-loaded the buyback into the first half, but it's something that we're going to keep under review.

Nathalie Longuet - *SG Securities - Analyst*

Okay. Thank you very much.

Stacey Cartwright - *Burberry Group Plc - CFO*

Thanks, Nathalie.

Operator

The next question comes from the line of Yasuhiro Yamaguchi. Please go ahead.

Yasuhiro Yamaguchi - *UBS - Analyst*

Morning, Stacey.

Stacey Cartwright - *Burberry Group Plc - CFO*

Hi there.

Yasuhiro Yamaguchi - *UBS - Analyst*

Hello. One quick question.

Stacey Cartwright - *Burberry Group Plc - CFO*

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Hello?

Yasuhiro Yamaguchi - UBS - Analyst

Hello?

Stacey Cartwright - Burberry Group Plc - CFO

Hi. I can't hear you very well.

Yasuhiro Yamaguchi - UBS - Analyst

Sorry. Let me switch the line.

Stacey Cartwright - Burberry Group Plc - CFO

Hello?

Yasuhiro Yamaguchi - UBS - Analyst

Hello.

Stacey Cartwright - Burberry Group Plc - CFO

That's better.

Yasuhiro Yamaguchi - UBS - Analyst

Great. Thank you.

Stacey Cartwright - Burberry Group Plc - CFO

Great.

Yasuhiro Yamaguchi - UBS - Analyst

One quick question. There was a profit warning of Sanyo Shokai in December whereas your statement about license business does not change from the earlier views. Where is the disconnect?

Stacey Cartwright - Burberry Group Plc - CFO

I think you need to look into Sanyo's numbers specifically because what they actually guided on was that revenue was there or thereabouts but actually it was their internal margins, I guess gross margin and their own internal expenses, that was leading to the profit shortfall but, actually, revenue was there or thereabouts. And, obviously, we get paid based on the output that they're producing that then translates into sales.

Yasuhiro Yamaguchi - UBS - Analyst

Okay. Thank you.

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Stacey Cartwright - Burberry Group Plc - CFO

Okay.

Operator

Thank you. We currently have no further questions. (OPERATOR INSTRUCTIONS). We have no further questions coming through so I hand you back to your host to wrap up today's call.

Stacey Cartwright - Burberry Group Plc - CFO

Well, thank you everyone for your attention. We look forward to speaking with you when we have our second half trading update, April 15. Thanks very much.

Operator

Thank you for joining today's conference. You may now replace your handsets.

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