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PRESENTATION

John Peace *- Burberry Group plc - Chairman*

Good morning everyone and welcome to our interim results presentation. Burberry has a clear strategy, a world-class management team and today we are announcing another solid first half building on the momentum in the brand and in the business.

Last month we announced that Angela was leaving us to join Apple and I would personally like to take this opportunity to thank her for the immense contribution she has made to the success of Burberry over these past eight years. Angela I know how difficult a decision it was for you to leave Burberry. But I'm sure you will always have great memories, a warm spot in your heart for this great, great British brand.

At the same time we talked about Angela leaving we also made the announcement about Christopher succeeding her. This came as no surprise to anyone inside Burberry as he's been working closely with Angela over the past eight years and is her natural successor. Christopher will be supported by an incredibly strong team and you may have already seen some of these leaders present at past results and in investor conferences. Christopher will lead Burberry into the next exciting chapter of its growth and over the coming months Angela will progressively transfer leadership responsibility to Christopher in such a way as to minimize disruption to the business this year.

However, the main purpose of today's meeting is for us to present the interim results. But before Angela and Carol do just that, I would like to ask Christopher to speak briefly about his vision for the brand, his organization plans and what you should expect strategically to create future value for our shareholders by keeping Burberry at the forefront creatively, digitally and operationally. Christopher.

Christopher Bailey *- Burberry Group plc - Chief Creative Officer*

Thank you John and hello everybody. I would like to add a very warm welcome to Horseferry House, particularly to those who have not been here before. This building in which our design and operational teams work side-by-side is the real heart of Burberry which is why there is no better place to be talking to you about our performance over the past six months, which Angela and Carol will do in just a moment.

To set the scene I would like to play a short video that recaps some of the highlights from the first half of this year. (Video playing). I hope that gave you some sense of our achievements these past six months building on the outstanding platform established in recent years under Angela's magnificent leadership.

As we reflect today on Burberry's performance in the first half and before I formally assume my new role next year this feels like the right moment to say a few words about why I am so excited about the next phase of Burberry's growth, in doing so I will touch on these three areas, a brief insight into my Burberry history, an overview of our future organizational structure and finally a word on strategic focus.

Looking around the room today it is a pleasure to see many familiar faces, but I'm also conscious that there are many of you I've not had the opportunity to meet before. As such I thought it might be appropriate to begin with some brief insights into my Burberry journey so far.

I joined Burberry in 2001 though my love for the brand started many years before that with a trench coat that I inherited from my grandfather. It was his pride and joy and I loved it just as much, not least because that trench coat was made just 20 miles away from where I grew up in Yorkshire and where our iconic trench coats are still made today.

I had from that moment on an incredibly strong sense of Burberry's identity as a brand. I knew then that Burberry stood for British-ness and for excellence of design, craft and product. I also knew that it created things that people aspire to own and to cherish. It is these values that I have endeavored to keep hold of throughout my 13 years at Burberry as we have built this Company into a great British global luxury brand.

During my time at Burberry I'm proud to have played my part in shaping and building what Burberry stands for in the 21st century, designing not only the products but also the environments and the experiences that connect and engage all our consumers globally. We have bought back our licenses and taken back control of our brand. The result is that we have built a Company with an utterly distinctive and entirely consistent point of view.

To achieve this has required new ways of working and thinking, uniting diverse teams and challenging ourselves as well as accepted norms to become a truly design-led company. We have always seen art and commerce not as opposing forces but as two sides of the same coin. It is this distinctive union of the artistic and the commercial that defines Burberry today and that has played a huge role in our success to date just as it will in our future.

There is no more powerful foundation for that future success than the united global teams that we have established in recent years under the leadership of an outstanding group of senior executives. I'm excited by the prospect of leading and working alongside this team as we take Burberry on to the next stage of its journey.

I would like to take a few moments to summarize how the organization has evolved to date, how we will structure the business in this next phase as well as some new developments that will support me in my new role.

We are still early in the transition phase but are already well advanced in finalizing an organizational structure that will see the direct reporting lines which currently exist under me and Angela streamlined and distilled into three key pillars, product, our regions, operations and finance.

First product, which encompasses design, all product areas and communication. This first pillar will brings together all the customer facing elements of our business and will be headed up by our seasoned Chief Merchandizing Officer, Chief Marketing Officer and Chief Supply Chain Officer as well as our SVPs of Creative Media and Product Development, and our SVP of Beauty who joined us last year to oversee this new product division.

In addition I'm creating a new role of Chief Design Officer to oversee all design activities under my leadership. This will allow me to continue to remain fully involved in setting the creative direction and vision for the brand. This new role is being filled internally by Luc Goidadin one of my most experienced, trusted and talented colleagues who has worked alongside me for over 12 years.

The second key pillar is the regions, EMEIA, Americas and Asia Pacific, overseen by our two highly respected CEO's, Andrew Maag and Pascal Perrier. With 15 years combined Burberry experience and highly motivated, talented regional teams, Andrew and Pascal will continue to drive further growth globally in close collaboration with their functional partners at the corporate center.

The final pillar brings together all of our operational and financial functions. We have another exceptional team of experts already in place in this area including our Chief Operating Officer, John Smith, and our Chief Financial Officer, Carol Fairweather.

John, as you know, has been on the Burberry Board for four years and took on the role of COO in March. John will continue to work across all operational and financial aspects of the business, including leading key areas such as digital and social commerce as well as optimizing our global licenses.

You all know Carol and will appreciate her unique blend of institutional Burberry knowledge and exceptional track record. In seven years with Burberry Carol has established an outstanding reputation both internally and externally and will continue to partner with the organization globally to drive long term sustainable growth in this next phase.

We also have our highly experienced chiefs of technology, strategy, people, customers and corporate affairs.

Across these three pillars we have the best talent in the industry running the day-to-day operations of Burberry by channel, by region and by product division. They operate in a structure that will fully support me to effectively lead the creative and commercial dimensions of our business in its next exciting phase.

It has been my privilege to have worked closely alongside this exceptional group of colleagues over many years and I look forward to partnering still closer with them in the months and the years ahead. With this structure I will have significantly less reports than Angela.

To close I'd like to say a few words on our strategies. As we said at the time of the announcement a few weeks ago, there will be no radical change to Burberry's strategies as we enter this next phase.

Having worked together with Angela over the past eight years to create the company we both always dreamed of building, I'm proud to have partnered closely in shaping the strategic direction for sustained financial growth from positioning British-ness and outerwear at our core to speaking to millennial consumers through digital, to creating a cohesive and consistent brand around the world, and to building the Burberry foundation as an integral part of our culture with a commitment to the next generation of young people.

Burberry today is brilliantly positioned for future growth. We are an old British company with the energy and drive and global outlook of a young one, with tremendous brand momentum and significant opportunities by channel, by region and product division, including the transformative potential of Burberry Beauty and the Japanese integration. We will continue to evolve our five key strategies in support of these opportunities over the coming years driving productivity, efficiency and focus in all areas.

I hope these past few minutes have given you a sense of why I am both proud and excited to be taking on this new role and to have the opportunity to lead Burberry into its next chapter. I believe this is a brand and a culture like no other, with solid business strategies and tremendous potential and fuel in the tank. As we transition I look forward to updating you all on the achievements of the teams in the months ahead when I will have formally assumed my new role.

With that I thank you very much indeed and I will now hand over to Angela who will deal with business as usual.

Angela Ahrendts - *Burberry Group plc - CEO*

Thank you Christopher and good morning. We had a solid first half with revenue up 17%, adjusted PBT unchanged year on year at GBP174m, better than we expected at the start of the year. A strong cash position and a 10% increase in the interim dividend.

Our five strategies remain as relevant today as ever. The portfolio is balanced by channel, region and product and we continue to unlock the power of our regional teams, giving them responsibility for two of our key growth drivers, digital and beauty.

Underpinning this financial performance was continued brand momentum driven by digital collaborations with technology leaders such as Google and Apple. Extensive use of outdoor advertising in iconic locations in flagship markets and innovation around Brit Rhythm for men, our first ever direct fragrance launch, leveraging Burberry's capabilities across music, social media, compelling content, and of course digital activation, all shot and produced by our in-house creative media teams.

So picking up on revenue, total revenue for the half increased by 17% at reported FX and 14% at constant FX. Retail continues to be the primary driver while wholesale and licensing were both impacted by the direct operation of beauty from April 1.

In retail revenue increased by 17% underlying. Comp store sales growth, although uneven, was still up 13% in both quarters. Average selling price remained a key driver of growth as consumers continued to buy more Prorsum, London outerwear and large leather goods.

Footfall remained soft offline but grew significantly online and our conversions improved in both. As you know, we fully embraced and invested in digital online and offline, a point of difference from many of our peers. And we continue to see encouraging results from iPads in-store, which now comprise almost 30% of our online business, to our new clienteling tool, customer 1-2-1 which is now live in over 300 stores. And you can now choose to collect your order online --- or buy it online and collect it in store in over 80 locations globally. All of this has helped improve customer service and further drive revenue.

Turning to wholesale revenue, excluding beauty, decreased by 7% underlying, marginally ahead of our guidance as the brand performance of key wholesale partners was better than originally planned. And this improved trend is reflected in our guidance for the second half as we continue to see the US, Asia travel retail and emerging markets as growth drivers.

Turning to beauty, where we are as excited about the opportunity as we ever have been, but let me remind you briefly why we decided to take this under direct control.

First, compared to our peers we are under-penetrated in beauty, which is one of the largest product areas in luxury. Second, beauty is the entry to and the most widely encountered projection of our brand so we must own it. And third, direct operation will also facilitate a single integrated global marketing program with a 50% higher spend, providing a positive halo effect across apparel, accessories and beauty, and continuing to drive our strong brand momentum.

We talk in the statement this morning about some of the short-term issues we faced which may reduce this year's beauty profit to around GBP10m as we encountered some supply chain and regulatory delays, and higher than expected inventory levels at our distributors. Short term we will be looking for offsets from the significantly larger divisions and longer term we strongly believe that beauty will be a key contributor to our future growth and profitability.

So we will continue to invest to drive this, with additional marketing spend behind Brit Rhythm, building the team and investing in product development in our small make-up business, all driving growth in beauty and building a halo effect across the entire Burberry brand.

Finally, licensing, where revenue was down 19%, but excluding fragrance from last year's numbers, was up 2% underlying. While Japan was unchanged as expected, watches and [eye] were together posted double digit growth.

As we've done in our core business, we continue to work with our partners to reposition the license products. For example, in watches the Britain watch has an average selling price of about three times our historical level. To support this more luxury positioning our partner's relocating about 20% of the doors to more brand-appropriate spaces. This is absolutely the right thing to do for the brand, though may impact growth in licensing next year.

The Japan team led by Pascal Perrier, our Chief Executive Officer of Asia Pacific continues to be focused on preparing for the transition to the global collection where the local apparel license expires in 2015.

We've opened another mainline luxury store in Roppongi Hills, Tokyo to bring our total to four mainline stores and 10 concessions in that market. These stores are performing well as product, retail and marketing initiatives are more refined. As promised, the team will share more of our thoughts regarding Japan at the prelims in May of next year.

As you can see from this slide, our business remains very balanced by region. Please note that the growth rates by region are slightly distorted by the new beauty division. Excluding beauty, Asia Pacific grew by double digits and EMIEA -- and the Americas by high single digits. In Asia Pacific comp store sales were up double digits.

And we're pleased with our performance in mainland China supported by ongoing brand, product and store evolution. Mainline comp growth slowed slightly in the second quarter and was offset by Chinese customers shopping elsewhere in Asia, particularly Hong Kong and also in Europe, which is why we have been focusing our investment in these key flagship markets. In China today we have 71 stores, of which 30 were acquired and 41 opened by us, including the two new stores you can see on this slide in Shanghai. And we're continuing to evolve our store portfolio plans as the Chinese luxury customer shopping patterns change.

I'm thrilled to announce that we have this week agreed to acquire three stores in Thailand which were previously operated by a franchise partner.

In EMIEA comp store sales growth was up double digits. Performance in the UK improved, France and Germany remained robust while Dubai was weak reflecting soft tourism. A higher proportion of transactions in European flagship markets came from tourists in the first half compared to last year. Hence our investment in travel retail at Heathrow T3, a Brit Rhythm pop-up shop in T5, the store takeover with Printemps in Paris, and of course Regent Street and Knightsbridge are just annualizing in our home market in London.

Turning to the Americas, retail comp was up high single digits. The penetration of digital in our US retail remains the highest of all regions and although relatively large already we continue to see strong growth through the dotcom sites of our wholesale partners as well. Real estate expansion for this region is focused outside of the US particularly in the high potential markets of Brazil and Mexico, and the first stores in Chile and Colombia were recently opened by a franchisee.

Our partners -- our business and growth is also very well balanced by product. This chart includes beauty, our fifth product division for the first time. Outerwear, at nearly half of apparel, is always at the core of what we do. Accessories remained our largest product division at 37% of revenue, underpinned by large leather goods at over half of the business where the penetration of solid leather bags increased year-on-year and our key shape strategy performed very well.

And our growth initiatives in men's are also working well with the penetration of menswear and men's accessories increasing by a further 2 percentage points in mainline retail, clearly helped by the halo effect of the launch of Brit Rhythm for men in the last few weeks of the quarter.

Last year we delivered very strong growth over the festive period. So this year we've been intensely focused on preparing for this time, with cross-functional teams working together since the beginning of the year to ensure we have the most diverse and compelling gifts every month which will strongly feature in our messaging on and offline.

As you can see from the slide, the theme is Burberry with Love, building on Trench Kisses from the February runway show and Burberry Kisses by Google launched last June. So before I hand over to Carol let me show you a short video that highlights the key festive marketing strategy. (Video playing).

Carol Fairweather - *Burberry Group plc - CFO*

Thank you Angela and good morning. As Angela has already summarized, we delivered a strong set of results in the first half, reflecting strong momentum in the business and brand with revenue up 17%, adjusted profit before tax unchanged at GBP174m, a strong cash position and the interim dividend up 10%. We are pleased with our first-half profit performance, which was better than we expected at the start of the year, and remain confident for the full year albeit we're still ahead of the all important festive period and operating in an uncertain macro environment.

Turning to retail/wholesale, operating profit grew by 7% in the first half to GBP138m, a 13.9% margin. The key drivers of this growth were a GBP4m translation gain from FX, a first time contribution from beauty of GBP6m, a reinstatement of part of the performance-related-pay charge which was therefore GBP8m higher than the prior year, and a GBP7m increase from the core business, with operating leverage from the 17% underlying retail growth partly offset by lower wholesale revenue.

So let's look at these numbers in greater detail. Gross margin in the first half was unchanged at 69.2%. Beauty in this transition period was dilutive to gross margin, but in the core business in light of the significant benefits we have delivered over the last few years there were no major changes in gross margin trends. Excluding beauty, the key drivers of the modest improvement continued to be the net benefit from FX, the mix shift to retail and some modest price increases.

Our operating expenses increased by GBP101m to GBP547m in the first half resulting in an operating expenses to sales ratio of 55.3%. About one quarter of the pound's million increase was from the step up in costs to support beauty, another quarter resulting from the opening of new stores and the balance of the increase came from general inflation, increased investments in marketing and IT, volume-related increases and the higher performance-related-pay charge.

Turning to licensing, profit for the half was GBP36m. As you can see from the slide, the change from H1 last year related predominantly to the loss of GBP11m of revenue from the discontinued fragrance license offset by the growth in remaining licenses and lower costs. The impact of FX in the first half was GBP0.4m negative. However, having hedged the majority of our yen exposure for the balance of the year at JPY145 to the pound, we are now expecting a negative impact in the second half of around GBP4m.

Working down the income statement, we had a GBP0.3m of finance income in the half and expect it to be about this level for the full year.

The exceptional item of GBP15m comprises two things, the GBP7.5m amortization of the beauty intangible, which will be GBP15m in the full year, and the GBP7.4m charge relating to the China put option liability where there is a call option in 2015 and a put in 2020 over the 15% economic interest in the Chinese business not held by us.

The tax charge of GBP43m reflects our estimated effective rate, tax rate on adjusted PBT for the full year of 25% against the 25.8% achieved in the full year 2013.

And finally, the movement in the non-controlling interest is primarily a result of us having taken full effective ownership of the small loss-making retail operation in Japan as we prepare for the expiry of the apparel license in 2015.

Our business remains strongly cash-generative, with GBP142m of cash flow from operations, a small increase versus the GBP138m last year. Depreciation rose to GBP62m and we expect a charge of around GBP130m for the full year. Excluding beauty, inventories were up 9% at constant FX, growing at a slower rate than retail sales, which were up 17%. And this contributed to an outflow of GBP110m in the half on net working capital and other items, as shown here.

Translating that operating cash flow to net cash, capital expenditure was GBP63m, of which retail was about 70%, split evenly between the regions and between flagship and other markets. And we continue to expect that our CapEx will be around GBP200m for the full year. Tax, dividends and other outflows totaled GBP168m so we finished the half with net cash of GBP208m. The Board regularly reviews our balance sheet structure, taking into account our lease commitments, and is currently happy with this net cash positive position given our growth plans ahead.

The slide in your pack summarizes our outlook and I would just like to highlight two things. The first is beauty, where we've held revenue guidance at GBP140m, with a lower proportion of sales from existing products due to the short-term issues we faced, as Angela discussed earlier, but with a higher proportion from new products supported by additional marketing investment. And although this may reduce year-one profit to about GBP10m, we will look to offset this shortfall elsewhere in the business and we remain confident about the growth opportunities in beauty.

The second thing to highlight is the potential impact from currency. There was a translation benefit from FX to both revenue and profit in the first half. However, as you build your models, please note that if current rates persist for the balance of the year, the impact would be negative in the second half, with little overall benefit to the year.

To close, we are pleased with the momentum in the brand and business in what remains an uncertain macro environment. We finished the half year with a strong financial position, with the goal remaining to drive profitable growth and a further modest expansion of the retail wholesale margin over the medium term as we continue to balance growth, investment and efficiencies, our pay-as-you-go approach in action.

So thank you for your attention and I would now like to hand back to Angela for closing comments.

Angela Ahrendts - *Burberry Group plc - CEO*

Thanks Carol. So, in summary, we've delivered a solid first half and as we head into the all-important second half the team remains focused on delivering profitable growth both this year and well into the future. As Christopher explained, it's very much business as usual during this transition period. The strategies are sound, the culture closely connected and the senior team energized and fully committed behind Christopher.

I remain as excited and as passionate about the Burberry brand in business and growth opportunities as I did when I took the helm in 2006. And I'd like to thank Sir John Peace, Burberry's Chairman, and the entire Burberry Board for their unwavering support throughout, and Christopher for his trusting partnership and the entire Burberry team for their passion for the brand and compassion for one another and the communities where we all live and work.

Personally I am honored and humbled to have built and worked for such a remarkable team. And Christopher, who I truly believe is the greatest visionary in our sector today. And Christopher, we did it; we created the kind of company we always dreamed of working for.

Thank you so much. Carol and I will now take your questions.

QUESTIONS AND ANSWERS

Mario Ortelli - *Sanford Bernstein - Analyst*

Morning. Mario Ortelli of Sanford Bernstein. Three questions if I may. The first one is about your strategy. The new exciting chapter in the growth of Burberry implies an elevation of the brand, becoming more exclusive. And if yes, what are the investments linked to this further repositioning of Burberry and what is the expected EBIT margin that you expect for the next years?

The second one is --

Angela Ahrendts - *Burberry Group plc - CEO*

If you don't mind, can we answer one at a time? Otherwise we'll forget them. So there is no repositioning of the brand at all. I don't know if something was misunderstood. The strategies remain the same. The positioning is exactly where we want it. The pyramid is so sound. Nearly half the business is Prorsum & London. The other half is Brit. The only new strategy is the acceleration of beauty, which we feel is a tremendous opportunity when we compare ourselves to our peers.

Carol Fairweather - *Burberry Group plc - CFO*

Yes. And in terms of investment, as we talk about, we always talk about investing for the long-term growth of the brand. So we will continue to invest. Our strategies are clear, in digital, in flagship markets, in servicing the consumer. And we will continue to aim to increase that, modestly increase that retail/wholesale EBIT margin as we have done over the last few years. So very much the strategies are unchanged, investment plans unchanged likewise.

Mario Ortelli - *Sanford Bernstein - Analyst*

Why not give a target of EBIT margin for next five years?

Carol Fairweather - *Burberry Group plc - CFO*

We've never, no.

Mario Ortelli - *Sanford Bernstein - Analyst*

I give a try.

Angela Ahrendts - *Burberry Group plc - CEO*

That would be a change of strategy.

Mario Ortelli - *Sanford Bernstein - Analyst*

The second one is which percentage of your sales are due to travelers?

Angela Ahrendts - *Burberry Group plc - CEO*

It's a really tough one. We've been building a consumer insight and analytics department over the last couple of years, so it's hard, unless -- because a lot of them have second homes etc. We estimate maybe about 30%, 35%. McKinsey claims that half of luxury is done to traveling consumers, but we think right now about 30%, 35%.

Mario Ortelli - *Sanford Bernstein - Analyst*

And the last question, which percentage of your sales is due to markdowns and which percentage of Prorsum sales are done in markdowns?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, we have never ever broken out regular to markdown etc., but I will tell you we're running at the lowest levels in the history of the Company.

Mario Ortelli - *Sanford Bernstein - Analyst*

Thank you.

John Guy - *Berenberg - Analyst*

Yes, good morning. It's John Guy from Berenberg. A couple of questions from me please. First of all with regards to China and the 71 stores that you have at the moment, I think you've said that 30 are still trading in the old format. When you look at the work that you've done within the new format, larger stores, certainly a significantly higher percentage of sales running through from Prorsum I think. Some of the old franchise stores didn't even really have Prorsum in them at all.

So when you think about the real growth and the opportunity there in conjunction with what you're seeing in Japan, again a very high penetration rate within Prorsum, why is your expectation for Prorsum for the Group only still running at around mid single digit? That's my first question.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. So again, I'm not sure where you're getting all the Prorsum information because we don't ever break it out. We don't break out the percentage in the stores etc. We've always said that Prorsum is -- our goal was to have it be about 10% of the business because we want it to be the most exclusive, unique part of the business. So it's not in all of our stores around the world; it's in about a third of our stores. It's in very few wholesale partners. Again, that's our limited edition almost, if you will.

So there is still tremendous growth for Prorsum in China and throughout the rest of the world if we choose to expand it. But we intentionally hold it exclusive, hold it tight, because there's so many different levels of luxury customers that you're catering to.

John Guy - *Berenberg - Analyst*

Okay. Thanks. And with regards to Japan, you updated on the number of concessions that you have, 10 concessions and 4 DOSs outside the license. Angela, I remember you saying a while ago that looking to right-size the store base within Japan, potentially 50 to 75 stores over an undisclosed period of time. Where do you think we may be by 2016?

Angela Ahrendts - *Burberry Group plc - CEO*

The 50 to 75 were locations. Those were not all freestanding stores. Those include big concessions with the big departments stores etc. So we have a three-year plan for Japan. I'm not going to get into a tonne of detail today because the team is working really hard and they're increasing the team on the ground in Tokyo and they are preparing to share a pretty in-depth analysis with you at the prelims in May. But there's a solid three-year plan and you'll have to stay tuned.

John Guy - *Berenberg - Analyst*

Okay. Thanks. And my final question, just with regards to the gross margin, which was flat. When you effectively strip out beauty, could you give us what the actual gross margin was ex beauty?

Carol Fairweather - *Burberry Group plc - CFO*

We said this morning that beauty was dilutive in this first half. 10s of basis points, John. Nothing significant.

John Guy - *Berenberg - Analyst*

Thank you very much.

Fraser Ramzan - *Nomura - Analyst*

Thanks very much. Good morning. Fraser Ramzan at Nomura. Couple of questions. First one on beauty. You flagged the supply chain and regulatory hurdles you faced in the half. But just at a bigger picture level, what's the biggest unlock to scaling up that business today from where it is to something even approaching your biggest product division, which I think is what you've talked about previously?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, great question. And that's not what impacted the first half. So much of the first half, you're picking the business up on the fly from a long-term partner, so just getting access to parts, getting access to information, that really is what caused a lot of the delays. And then the distributor's also afraid and so buying a lot more, so the channel is full.

Long term the biggest unlock, which is what we have already started to do with the Brit men's fragrance launch -- and if you haven't seen the commercials, go online. They're actually playing in America. Macy's is playing them from now until Christmas. And that is simply engaging and extending the reach of the brand. We always said if our core brand could connect with -- have a consumer base of 10m roughly, this is 10 times that.

How do you really get that reach out there? So the Brit Rhythm launch leveraged everything we had in digital, everything we had in social, the music platform of the Company and just extended that reach. That's why we've decided to accelerate the women's launch into this year and do the same thing because the women's fragrance business is even much larger than men's.

Fraser Ramzan - *Nomura - Analyst*

Thanks, so leveraging marketing. And can I just come back to the 13% comp in the first half of the year? Now if you look at that number, love it if you could break it down by transactions, units per transaction, AUR or at least give us some flavor on AUR, but most of all it seems like conversion has been a big part of that if traffic's been down. So as we look forward to the second half can you just talk a little bit about a bit more detail, if you like, on the gifting and festive set-up, such that when people do come into the store you can grab as many transactions as possible, because I think it's going to get tougher?

Angela Ahrendts - *Burberry Group plc - CEO*

You and I know -- here's my thing. First of all, just look at the 13% comp versus all of our peers because we are guilty of just continuing to move on like everyone else. But it's a powerful performance, two quarters in a row, to have a 13% comp on a business of this scale. And that is why the focus has been on festive. So of course it's traffic, of course it's conversion, but it's also units per transaction and that's what we're trying to capitalize on in this festive period.

And festive is not just Christmas. Chinese New Year has the ability to be every bit as big as Christmas. That's why the second half, that's why the business is not only shifting from wholesale to retail, so much of everyone's business is shifting to the second half because of these two important festive periods. So a lot of with festive is simply units per transaction when a customer comes into the store, how do we sell them more gifts?

Fraser Ramzan - *Nomura - Analyst*

So is that small leather goods? Is it silk, accessories, little for little?

Angela Ahrendts - *Burberry Group plc - CEO*

You obviously have not been online recently.

Fraser Ramzan - *Nomura - Analyst*

But year on year that's a big scaling up, is it, in the offer and its presentation in stores?

Angela Ahrendts - *Burberry Group plc - CEO*

Absolutely, absolutely. And we've always said that our small leather goods business is significantly under-penetrated compared to our large accessory peers. So we're looking to just pick up some of that market share from them.

Fraser Ramzan - *Nomura - Analyst*

And just being greedy with the mic', okay, love it when AUR goes up, but in future years if beauty's going to grow, I guess we have to stop expecting that.

Angela Ahrendts - *Burberry Group plc - CEO*

The difference is beauty is wholesale. That doesn't impact our retail business.

Fraser Ramzan - *Nomura - Analyst*

Fair enough. Thanks.

Luca Solca - *Exane BNP Paribas - Analyst*

Good morning. Luca Solca from Exane BNP Paribas. On beauty if I may, your initial guidance was significantly higher but was to be impacted by one-offs. You're now saying that you have short-term issues to tackle. I wonder if you could give us a bit more perspective on this business and what you think the operating margin will be at a run rate when you look at year two, for example.

Carol Fairweather - *Burberry Group plc - CFO*

Yes, we're not disclosing. Remember, this is beauty in this transitional year we're giving you the numbers. Going forward beauty is our fifth product division and we won't be splitting out margins, as we don't for men's, women's or accessories. So nothing specific to say on margin going forward specifically on beauty, but in terms of we won't be giving a particular number.

Luca Solca - *Exane BNP Paribas - Analyst*

Okay. That was a try, but okay, fair enough. You're saying that you're bound to offset the shortcoming from beauty this year in other parts of the business. Which parts?

And is there a possibly more reduction to come in wholesale next year? And is wholesale playing a part in this, this year, in this --

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Carol Fairweather - *Burberry Group plc - CFO*

In terms of wholesale on our existing business, not talking about beauty now, we are talking about wholesale in the second half now being up high single digit, mid to high single digits. So nothing particular in wholesale to call out in terms of -- clearly if we get reorders going through the half, that would help.

But in terms of how we're going to offset, it's our normal pay-as-you-go approach. We'll be looking for efficiencies elsewhere in the business where we can leverage those opportunities to make sure that we look to offset that shortfall coming from beauty in this transitional year. But it's not -- don't look at the beauty number in isolation. It's really about the halo effect that that beauty business is bringing to the existing business. And so although we're calling it out for this year, it's really we're managing to that bottom-line number for this year.

Luca Solca - *Exane BNP Paribas - Analyst*

I understand the concept, but could you say which parts of the business?

Angela Ahrendts - *Burberry Group plc - CEO*

Menswear is outperforming based on the Brit men's Rhythm launch. So men's is -- we call out men's pretty consistently. Remember, we just relaunched it two and a half years ago. Men's was all licensed up until three years ago. So it is still a new -- men's apparel, men's non-apparel, specifically men's London, again if you go online you'll see the new travel tailoring concept that the team put out. So we see significant growth opportunity in men's, especially in these high-growth underdeveloped markets. You have a very male consumer in all of those high-growth markets. So that will be one of the ways we offset.

Luca Solca - *Exane BNP Paribas - Analyst*

Thank you very much. One other point about the demand environment. Most of the luxury goods players during the third quarter provided a sequential deceleration. You're experiencing very significant organic growth because of the many initiatives you have. Could you potentially expend on how see the demand environment?

And is there anything to be expected from the new travel rules in China that could affect your business?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, if we could predict the future I don't think we'd be sitting up here. But I think that we might be outperforming a little because eight years ago, when we put our initial strategies in place, not only was it reinforcing our Britishness, which noone else has, and focusing on outerwear that noone else was born from, we decided also very strategically to target this millennial consumer. All the consulting firms told us that the next generation of high net worth would be 25 years younger than their western counterparts.

So I do believe that we have this younger audience coming in and connecting with the brand now where maybe a lot of our peers didn't jump on that as quickly. And I don't see that slowing.

The second part of your question though was --

Luca Solca - *Exane BNP Paribas - Analyst*

About the new travel rules in China, whether this is going to -- having an impact as they came into place on October 1, expected to have an impact, in your view.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. It is absolutely already having an impact. We didn't participate in any of the commission structures. But we have big partners, travel retail partners, and it absolutely is impacting their business. To what degree, for how long, I don't know. But I do think as the data shows, there are many levels of traveling Chinese consumers and only their first trip or two do they go through the tour groups. After that they're on their own. Typically when they come here, they're on their own. So I think it's a moment, but I think, again, it will be offset.

Luca Solca - *Exane BNP Paribas - Analyst*

Thank you.

Thomas Chauvet - *Citigroup - Analyst*

Good morning. Thomas Chauvet, Citigroup. I've got three questions. The first one on China, if we look at the valuation of the Chinese franchisee put option, there's an interesting 20m swing year on year. Obviously a credit last year because the world was tough for you and peers in China. Now life has got a lot better for you in China but your peers got a lot worse in the third quarter or a bit worse.

What are you doing differently in China that gives you confidence about this market against your peers? Can you talk about how far you want to bring the margin and the store base in that market?

Carol Fairweather - *Burberry Group plc - CFO*

In terms of just on the technical point on the China put option, some of that movement anyway is just due to the unwind of the discount, so it's not -- you can't look at it all in terms of growth.

But in terms of China, I think we've talked about the fact that we had a nice comp in China in the first half of last year. We know that was driven by many of the actions we've taken in China in terms of evolving the store portfolio, the way in which we appeal to that digitally savvy younger millennial consumer, the product, particularly around men's, the evolution of the store portfolio.

But it's not just about China in China for us; it's so much bigger than that. The put option specifically relates to the Chinese business. For us it's much more about the global traveling consumer and the impact of them when they travel outside China albeit in Mainland China, in Hong Kong or in Europe and increasingly in the US. And we called out in the statement back in October that we had seen an increasing number of transactions, particularly in Europe, from tourists. And I think that's sentiment to what we're doing in China and the impact it's having on the rest of our business.

Thomas Chauvet - *Citigroup - Analyst*

But you feel that in domestic China you have a lot of self help versus peers?

Carol Fairweather - *Burberry Group plc - CFO*

Absolutely. I think the numbers we've posted demonstrate that, and that's what we've been doing over the last few years. We've still got 30 of those existing stores, which we know that the new stores are outperforming those. We know that through clients servers, through digital, there's a number of levers we've still very much got to pull in China. But it's not just about China; it's about what happens in the Group globally.

Thomas Chauvet - *Citigroup - Analyst*

Okay. Secondly, on Japan, I remember in May and July you mentioned that you had very limited brand awareness in the country at this stage as a luxury brand product. The first six months seem to have shown double-digit like for like in a small number of stores, 14. Has that brand awareness evolved? Can you share your view, maybe Pascal Perrier's view, about how you're going to drive that brand awareness in the very sophisticated Japanese market?

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Again, I'm not going to go into some of the detailed plans on Japan. They're all being worked through right now. We've got a whole dedicated team going back and forth to Japan from Hong Kong every month, spending weeks on end. So in May they'll be able to share with you. We're not doing anything significantly different right now. It's the same out-of-home strategy. It's the same digital strategy that we're applying in the rest of the countries.

I think you can assume after that license we will absolutely begin to accelerate. But it's a very small base right now. Until the department stores have cleaned up the current product and have our products solidly positioned, you can imagine we're not going to aggressively over-invest to change perception there yet. So, again, the team will fully update you in May.

Thomas Chauvet - *Citigroup - Analyst*

Okay. And finally, just to follow up on beauty, it seemed to me in May that the 18% margin you had given for the year was more like a medium-term guidance. So I might have misunderstood at the time. I didn't think it was just your one 18%, but more like a long-term profitability of the business. Could you just perhaps comment on that and also give us the gross margin of that beauty business?

Or if you take any assumptions on OpEx versus gross margin. What assumption have you made to get to that 60, high 60s gross margin in beauty?

Carol Fairweather - *Burberry Group plc - CFO*

As I said, we're not going to be splitting out specific margins on beauty going forward, only in this transitional year.

In terms of gross margin, I've said this morning that it was marginally dilutive to the Group EBIT margin so you can back in what assumption you want to make on that in terms of H1.

Going forward, in terms of -- we'll be running beauty as our fifth product division so we won't be looking -- we can allocate certain costs to beauty, but it will be about leveraging the infrastructure, leveraging the marketing spend more generally and we'll just be running it as part of our fifth product division, understanding the halo impact it brings to the brand. So in terms of operating costs, we're not going to call out a specific number or a percentage on that.

Thomas Chauvet - *Citigroup - Analyst*

Okay. Thank you.

Julian Easthope - *Barclays - Analyst*

Hi. Good morning. It's Julian Easthope from Barclays. I've got three questions. But maybe I'll start with beauty. You said that in your May presentation that there were basically going to be five pillars of -- behind the beauty brand. And now you've taken it over there's clearly been some issues with Burberry Body because of the way that the transition worked. So I just wonder whether you've actually formulated which five pillars they will be and whether you're happy with that you're not going to be just reliant on new product launches to actually drive the revenue and profit.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Great question. Nothing has changed from what the team presented to you previously. We put up the entire senior beauty team. Those strategies have not changed whatsoever just because we had some hiccups in the original Body, and that was more supply chain-oriented. If you go online right now you'll see the Burberry Body Gold front and center. You go to any department store you'll se Burberry Body Gold front -- right prominently displayed. So no change to those core pillars whatsoever. And Brit that we just launched was one of those key pillars.

Julian Easthope - *Barclays - Analyst*

Okay. Thank you. Second one, Japan, no surprise. I just wonder whether you've actually got any more stores planned, and particularly concessions because we hear that not necessarily -- the current license partner that you have in Japan isn't necessarily going out of his way helping you get through doors within the department stores in particular within Japan.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes, it's a real balancing act. And we know that a lot of the department stores have been now finally been coming to London, waking up and realizing that in a very short period of time that license does end.

So, yes, the retail teams are very focused on new real estate. I'm not going to tell you right now what's signed and not been signed, but you can assume there's a lot of negotiations taking place. And there will absolutely be more freestanding stores opening up from Kyoto to Osaka to Tokyo. And then there's a team in place that will pick up the transition with the department stores. But again, a lot more details in May. You're going to get bored with Japan come May.

Julian Easthope - *Barclays - Analyst*

Okay. Brilliant. And lastly just in terms of profit-related pay, I think two years ago it was GBP15m and you had 13% comp store sales, which seems pretty good, but it was only GBP8m in the first half this year. Was there -- is there a rebalancing between the way you're going to allocate first and second half, and will it actually go down in the second half bearing in mind the second half last year was a lot better?

Carol Fairweather - *Burberry Group plc - CFO*

So just to be clear, Julian, in terms of at the half year we have to make an estimate of what we think the accrual needs to be based on our full-year outturn. The estimate we've made at the half this year has resulted in GBP8m higher charge than last year. Last year we called out it was GBP15m less, if you like, than the year before. This year it's GBP8m higher than it was last year.

As we go through the second half we then true that up once we get a better understanding of what the final outturn will be against those stretching targets set by the Board. So all we're highlighting this morning is in the first half of this year, the way we're accounting for it hasn't changed; it's just the way in which we estimate what the full-year outturn will be.

Julian Easthope - *Barclays - Analyst*

Okay. Thank you very much.

Angela Ahrendts - *Burberry Group plc - CEO*

John.

John Guy - *Berenberg - Analyst*

Thanks. A follow-up from me please. Just with regards to I suppose your eight years, Angela, within Burberry and looking at all the heavy lifting you've done, looking at the radical change that you've made within the business, and from taking out Spain to increasing or taking on the franchise stores from China, and bringing in a whole new team and driving up your gross margin way over 1,300 basis points over the period, a very impressive performance. OpEx went up over 1,200, but I suppose you've got to spend, invest for the long term.

But going forward it does seem that the next phase of the Burberry strategy is about monetizing digital. It's about driving the awareness and you're at the forefront with your digital campaign. Could you maybe talk a little bit more about Burberry 360, the CRM, how that's evolving, how you intend to really monetize digital? It's, one hand, I suppose easier potentially to monetize digital within a media organization, but how do you really get to grips monetizing effectively and seeing the leverage within a luxury goods company?

Angela Ahrendts - *Burberry Group plc - CEO*

It's probably the most important future question for the Company and I tried to share some of that in my presentation. So we had called it Burberry 360 and all that that means is that we are servicing the consumer wherever they want to shop around the world, whatever platform they want to shop on. So I had mentioned we rebranded it Customer 121. That's the clienteling tool that we have been building for the last 18 months. That tool, that app is now solidly on every sales associate's iPad in 300 stores around the world.

That is a big reason and why I called out that the iPad sales, so a consumer comes in, realizes that the largest flagship store in the world is Regent Street, but burberry.com is really the largest flagship store because it can carry eightfold what the number of styles are in Regent Street. And Regent is huge so the stores go smaller in size from there.

So if a customer -- and again all of the research will tell you that more and more customers are shopping online before they go into a store. So the odds are they're going to see a lot of stuff online and walk into that store and they won't have it. But the sales associates can get it for them, have it delivered in 24 hours regardless, by ordering it from their iPad for them.

So we have armed the sales associates. We've built all of the tools that they need. They can also see now, if the consumer opts in, they can see the shopping behavior. What are the shops around the world that they purchase from, what they have in their basket online, what they've said to friends about Burberry on Facebook, something they want for a birthday gift. So this is digital today. And it's really just the ultimate in servicing the consumer as their behaviors continue to rapidly change. And I do believe that we are absolutely light years ahead of our peers because of the investments we've made in this space.

John Guy - *Berenberg - Analyst*

Okay. Thanks. And in your new role at Apple, just thinking, is there any room, do you think, maybe a niche in the app market for an iChav app? Do you think that's something that you'll be looking at when you go to Apple?

Angela Ahrendts - *Burberry Group plc - CEO*

I don't understand the question, sorry.

John Guy - *Berenberg - Analyst*

Lead balloon. Don't worry.

Mario Ortelli - *Sanford Bernstein - Analyst*

For me a follow-up question about the organization that Mr. Bailey described before. You talk about the new role of a Chief Design Officer. I can only ask you if you can explain us better what will be the organization of the design department, considering that Mr. Bailey will have to devote less time to the creative side of the business and also to look after as good CEO to the whole company of Burberry.

Angela Ahrendts - *Burberry Group plc - CEO*

Yes. Christopher announced that Luc is going to be taking over the Chief Design position and he has been with the Company, been with Christopher for 12 years. But you should know Christopher has over 100 of the most talented designers in the world creating products and the average person in his department has been there seven, eight years.

But that's only -- he's been the Chief Creative Officer for the Company. That's not just product. The entire store design group has reported into Christopher, the entire creative media team. Every video you saw is produced in-house, by another team of 100 -- we don't use any outside agencies -- that's all reported into Christopher.

So I think the misnomer is that he's only been designing product. Trust me he's already overseen half of the business up until this point. He will continue to do that. There is now an IT infrastructure and an executive human infrastructure that's in place to help him solidly pick up the other part of the business. But there's not a radical change at all into design. He's just taken one of his top talents and he will help him as we go forward.

Mario Ortelli - *Sanford Bernstein - Analyst*

Thank you.

Angela Ahrendts - *Burberry Group plc - CEO*

So it looks like there's no further questions. Thank you so much again for joining us and we look forward to seeing you January 15 for the third-quarter update.

Carol Fairweather - *Burberry Group plc - CFO*

Thank you.

Angela Ahrendts - *Burberry Group plc - CEO*

Thank you.
