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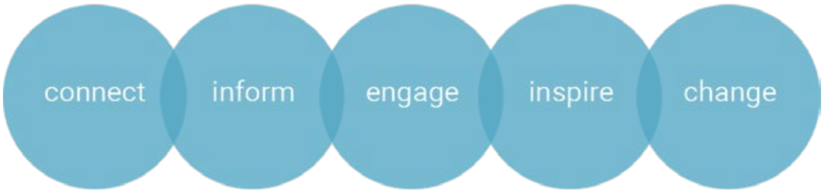

Burberry

First Half Trading Update Conference Call

18th October 2016

BURBERRY

Carol Fairweather, Chief Financial Officer

Charlotte Cowley, Director, Investor Relations

QUESTIONS FROM

Helen Brand, UBS

Antoine Belge, HSBC

Luca Solca, Exane BNP Paribas

Thomas Chauvet, Citigroup

Julian Easthope, Barclays Capital

Annabel Gleeson, Redburn Partners

Mario Ortelli, Sanford Bernstein

Melanie Flouquet, JP Morgan

Rogerio Fujimori, RBC Capital Markets

Carole Madjo, Haitong Securities

Charmaine Yap, Jefferies

Opening Remarks

Carol Fairweather, Chief Financial Officer
Good morning and welcome to Burberry's first half trading update conference call. With me this morning is Charlotte Cowley from our Investor Relations team. I will make a few brief comments on this morning's announcement and then we'll be very happy to take your questions.

Total revenue for the first half was down 4% underlying, up 5% at reported rates to £1.2bn, with growth in retail offset by a decline in wholesale and licensing, driven in part by strategic brand elevation.

Retail, accounting for 74% of revenue, grew by 2% underlying, with comparable sales improving to 2% growth in Q2 versus a 3% decline in Q1, resulting in comparable sales being unchanged in the half.

The most significant change in trend was in EMEIA, where performance in Q2 was led by the UK, which accounted for about 40% of the region's retail revenue. Comparable sales in the UK were up over 30% for the quarter, with growth from both tourists and domestics.

In Continental Europe, growth from locals was more than offset by declines from tourists.

Overall for Q2 EMEIA delivered a high single-digit comp growth versus a low single-digit decline in Q1, resulting in a low single-digit percentage comp growth for the half.

Within Asia Pacific there was a similar performance across both quarters, comparable sales declined by a low single-digit percentage, but were positive excluding Hong Kong and Macau. Mainland China improved, delivering mid single-digit percentage comparable sales growth in Q2. As we discussed in July, our performance is currently being impacted by the planned elevation of the store portfolio in Beijing, our largest market in the country. Excluding Beijing our China comps were up double-digit in the quarter.

In Hong Kong, whist we saw a very slight improvement in the second quarter, we continued to experience negative footfall. This was partly offset by improvements in conversion and overall comparable sales were down double-digit for the half.

In terms of pricing in the region, you may remember that in April 2015 we reduced prices on our heritage trench coats and scarves in Hong Kong and China. As part of our budgeting process for this financial year we planned similar price reductions to other product categories in these markets, which were implemented, as planned, at the start of September.

Finally, in the Americas, although comparable sales were down by a low single-digit percentage in both quarters, we did see a slight improvement in trend in Q2. We continued to experience uneven demand from domestic customers and spend from the travelling luxury customer, which accounted for about 20% of the region’s revenue in the half, remained down by a double-digit percentage.

Wholesale and licensing performed broadly in line with guidance and in part, reflected ongoing strategic brand elevation. Wholesale revenue was down 14% underlying. Excluding beauty, EMEIA and Asia were largely unchanged year on year, whilst the Americas saw a significant decline, reflecting tighter inventory control by our customers, coupled with our own actions to manage brand elevation.

Beauty was down nearly 20%, reflecting cautious ordering from distributors and strategic brand elevation, including the rationalisation of distribution in key markets.

And finally, licensing revenues declined to £13m in the half, largely reflecting the planned expiry of the Japanese Burberry licences.

So, let me update you on the initiatives we set out in May to deliver enhanced revenue growth and improved productivity, which are now well underway.

Firstly, we were delighted with the brand reach from the September Runway show, where for the first time the entire collection was available to purchase globally, both in store and online immediately after the show. In particular, we saw a good early response to the Bridle Bag, the number one selling item from the collection.

Turning to product, we continued to see customers respond positively to innovation and newness and fashion outperformed replenishment in our mainline stores. Growth in bags, an area of strategic focus for us, was led by the runway rucksack and the new Buckle bag collection. Dresses and ponchos also outperformed.

Under retail excellence, we are making good progress with investments in this area. Our growing team of private client sales associates now stands at over 230, providing an improved in-store retail experience and delivering a significant increase in private appointments in the half. And in the summer, for the first time we brought together our global store management teams for training, focusing on enhancing customer service and retention.

In e-commerce, we continue to invest the redesign of burberry.com for desktop was launched globally in September, as well as improved payment options, the launch of the store stock lookup and increased product personalisation for heritage scarves. And we are making good progress to launch our customer app in the next few months. Digital continued to outperform in the half and grew in all regions.

Turning to operational excellence and our plans to improve efficiency. We remain confident in delivering the planned savings of around £20m this year and are on track to deliver our target of at least £100m annualised savings by FY'19.

And finally in terms of the share buyback, we completed £34m of the initial £100m programme which started in July.

Turning to guidance there is no change for retail space or licensing revenue and as usual we have provided guidance for wholesale in the second half, which we expect to be down mid-teens. We see similar trends to those seen in the first half in both fashion and beauty, again in part reflecting the strategic actions.

As regards FX, using 30th September exchange rates, full year 2017 retail/wholesale profit would benefit by about £105m compared to last year's rates. This compares to a benefit of £90m when we spoke in July. Clearly exchange rates are volatile and given the significant movement in exchange rates since 30th September, we estimate that the benefit using the 12th of October rates would be at least £20m higher than the £105m. And we will update you as usual when we report in November.

Our expectations for the full year adjusted PBT on an underlying basis remain unchanged.

So in conclusion, we remain focused on implementing the initiatives we announced in May. We continue to invest and take action to deliver long-term outperformance for our brand and business against the luxury sector. And finally, in what remains a challenging external environment, we continue to closely manage the business day to day to ensure we are well placed for the all-important second half of the year.

So with that Charlotte and I would now be pleased to take your questions.

Questions and Answers

Helen Brand, UBS
Hi good morning, I've got three questions if possible. My first one is you've guided that you're pretty happy with the underlying fiscal '17 consensus PBT today, despite downgrading the wholesale guidance. This does suggest some additional cost control for the year. Can you talk about specifically where that's coming from, should we expect underlying opex to increase below the mid-single-digit guidance? And can you also update us on where you are on the review of performance related pay?

Secondly on the US market, like for like didn't see any material improvement this quarter, that's despite much easier comps. What plans do you have in place to turnaround the US business from here? And in terms of US wholesale, my estimates suggest down over 30% in H1, how much of that reflects the underlying market and how much is due to the move to one brand or further actions perhaps on rationalisation you're taking?

And finally, can you give us a bit more detail on the magnitude of the price reductions that you implemented in September in Greater China and across what percent of your offer? And any reaction that you've seen from the consumer since those price cuts?

Carol Fairweather, Chief Financial Officer
So yes we're saying we're holding underlying PBT, despite the fact that wholesale is coming in a little softer than we had previously guided to. You are absolutely right, we are able to hold the number because we have taken action on costs again this year. Remember we're doing two things here, we're absolutely confirming that we're on track to deliver the £20m of strategic cost savings that we talked about in May. But we're also continuing to manage the business very closely day to day to make sure - that in what does still remain a reasonably uncertain external environment that we're doing the responsible thing.

So it's really across all areas of the business, so as we talked about last year it's about being very thoughtful about replacing people when they leave, it's about looking at T&E again, it's about every area of discretionary spend. But it’s important Helen that we're not cutting costs in those areas that we talked about investing in. So I talked about things like the retail conference for our store staff managers, of course we let them travel because we need to balance investment for the future with tight and responsible day to day cost control.

And you asked about PRP, so no change to our guidance where we talked about effectively a £40m increase year-on-year versus the zero charge in last year.

In terms of the US, our plans to turnaround, clearly the US market does remain very challenging. You know it's an 80% domestic market for us and both domestics and tourists remain down. That said, we did see, and I said just now, we did see a slight improvement in Q2, but we're still down low single-digits. Again we're focusing on what we can control, so conversion is pleasingly up in the US.

We continue to invest in our Burberry Private Clients; we know that we have seen in what remain very difficult market conditions, an outperformance where we do engage with customers through that Burberry Private Client service. So very much all of our retail initiatives and product initiatives longer term will obviously benefit in the US.

And then within US wholesale, we're saying it's down around 25%, important to note that none of that relates to the label consolidation, because obviously it didn't impact in H1. What we are seeing is that the US wholesale market, you know I think the US department stores, it's been well reported, are experiencing quite difficult conditions. And what we have done is very strategically said that we won't push any more inventory into that market, so not intending to allow them to have any inventory to put into their off price channels, or encouraging them through offering extra discounts, because we want to continue to elevate the brand in the US. So nothing to do with one label, partly driven by underlying department store performance and partly driven by our own actions to continue to be very pure in that market. And then just to confirm I said we're down about 25%.

And then on pricing Charlotte?

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Charlotte Cowley, Director, Investor Relations
Yes, on pricing as Carol said, you know these were decisions we made when we budgeted back in March in terms of the pricing really and you'll remember we took - it was about a 10% decrease on rainwear and cashmere scarves back in April last year, so a similar order of magnitude from the first of September. In terms of the products, really the rest of outerwear, bags and shoes, so the majority of the rest of the product categories.

And in terms of performance - I mean pretty early days, it only went in on the first of September, but when we've done this in the past, as I said we've been quite pleased with the response by the time we get down to the bottom line.

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Helen Brand, UBS
Thank you very much.

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Antoine Belge, HSBC
Hi, three questions if I may, first of all actually following up on US wholesale, I understand your initiatives, what is happening when those US accounts do not respond in the way you want them to respond? Has there been any sort of streamlining or you taking the decision not to do business anymore with any major account in the US?

Second question regarding more the first half results, could we have some at least qualitative comments about the gross margin evolution in the first half, first of all on a sort of underlying basis and then taking into account the FX impact? So how you see PBT evolving in the first half?

Finally, if you look at the UK performance, I think it was up more than 30%, in terms of tourists, it is mostly Chinese tourists that you see? Any sort of colour about the components of that surge in tourism in the UK? Thank you.

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Carol Fairweather, Chief Financial Officer
Okay, so your first question Antoine regarding how our US wholesale partners respond, I think they understand. I mean we've worked in partnership with our US wholesale accounts over the last few years as we have elevated the brand positioning and therefore it's an ongoing conversation with them. They understand what we're doing and therefore you know this was the number they wanted to come into market and buy, we allowed the number to land where it did and I think they're very clear that we're not interested in doing anything else to fuel any off price or brand inappropriate activity. So it's a partnership with US wholesale, I think they understand fully where we're coming from and that's why the number is what it is.

In terms of H1, you know it is a trading update, but just in terms of gross margin, it's too early to call probably and be specific on guidance for the first half. That said, we do say that we wouldn't necessarily expect - we saw gross margin moderating over time and we're not expecting it to increase. We'll come back and update you. I would expect that there should be a benefit from FX on gross margin on a reported basis, but certainly not expecting any increase on an underlying basis and we'll come back and talk you through the detail of gross margin when we get to the half year in November.

And then in terms of the UK?

Charlotte Cowley, Director, Investor Relations
Yes Antoine in terms of the UK tourist groups it was really across all tourist groups, so yes certainly growth from the Chinese, but also in terms of Continental Europeans coming into the UK, Middle Eastern customers, and remember also we did see growth from domestics in the UK as well in the quarter.

Antoine Belge, HSBC
Okay, thank you, maybe a just a follow up. So if you look at the Chinese consumer cluster as a whole globally, you know how did that cluster trend sequentially Q2 versus Q1?

Charlotte Cowley, Director, Investor Relations
Yes, so it got better from the performance in Q1, most of that really - you do know that half of our sales to the Chinese consumer are within Mainland China, so the strength that we saw in Mainland China in the quarter was probably the biggest driver of that.

Antoine Belge, HSBC
Thank you.

Luca Solca, Exane BNP Paribas
Good morning. Maybe just following up on Chinese demand strengths, your peers were reporting a significant acceleration in the third quarter in comparison to the first half, when we look at it in calendar terms. Would you be able to put a number, or a broad number in terms of the improvement that you saw in sales to Chinese consumers worldwide?

Second question on the category mix that you're reporting in the first half, this seems to be quite de-averaged with childrens providing a very strong contribution to growth, while womens seemed to be on the back foot, I wonder what you make of that, and accessories also being slightly negative in underlying terms?

Third - beauty is quite significantly negative, you say you are satisfied with the progress in this category, I wonder what reference and what goals you are looking at and why is it that you're happy with this progress?

And last but not least I wonder whether you have any clearer visibility on the new CEO arrival? Thanks very much.

Carol Fairweather, Chief Financial Officer
So in terms of Chinese trends Luca, what we're saying is we did see an improvement in our second quarter, both at home and when they were travelling. So China, as I said, was up mid-single-digit, or up double-digit, excluding the rationalisation or evolution of the store portfolio. Overall we were still down because of the impact of Hong Kong and Continental Europe, but we did see an improvement, so I think we were down something like mid single-digit versus a more significant number in the first half where we were down more like double-digit.

So yes an improving trend in Q2, specifically in China and when travelling, and obviously the vast majority of that in this quarter came in the UK. We did see a little bit of improvement in the US, Continental Europe not much improvement and again a tad better in Hong Kong but not significant.

In terms of categories, just talking about childrenswear, you'll remember this time last year we transitioned from a licensed model on childrenswear in Europe to a wholesale model. So what you're seeing there is the strength in childrenswear coming through because we're reporting it as wholesale in the first half of this year.

And in terms of your comment on womens and accessories, so yes accessories again has been impacted by the wholesale number. When we look at accessories in our mainline channel then we saw strength in bags particularly, again the rucksack and where we continue to innovate, the Buckle family where we have now rolled out from the Belt Bag, the Patchwork Bag, and now to the Buckle Tote. And again the Bridle Bag was very successful, so we're seeing strength in accessories in our own retail. Womens was a little weaker; it tends to be more of an outerwear business which in this quarter did not perform as strongly as accessories. So I wouldn't read too much into that mix.

Beauty, you asked about - you know we're satisfied, I think beauty you need to again strip out the sort of own actions from the total number. We're saying that remember why we bought back the beauty business, it was to get control of the brand and to launch and sustain key pillar fragrances. The response we have seen to My Burberry, and then the extension we did of My Burberry Black this August has been very strong and likewise the launch of Mr Burberry in April. So the new fragrances performing very well.

This year is about cleaning up distribution in the UK, we've gone from 3,000 points of sale to something like 35, so that's obviously had an impact on the number. And no different to US wholesale where we have let the number - there has been an element of destocking by distributors globally and we're letting the number settle where it has settled rather than pushing inventory into that market. We're making market share gains in the US, in Italy, and the success of those icons is why we're happy to say we're satisfied with the progress we're making on beauty.

And then in terms of Marco, nothing new to announce today, still expecting him the summer of next year.

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Luca Solca, Exane BNP Paribas
Thank you very much indeed.

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Thomas Chauvet, Citigroup
Good morning, Charlotte, Carol, I have three questions please. The first one on wholesale, a lot of the weak performance is self-inflicted, are you comfortable that the clean up and brand elevation for both Apparel and beauty will be over by the end of fiscal '17 so we can have maybe a bit of growth next year in that channel?

Secondly, I was wondering what was the growth in LFL for large leather goods in the second quarter? And how far would you say you are in the rejuvenation of this category? You presented a lot of initiatives in making leather goods one of your key priorities last May at the full year results, how far has the team been reinforced maybe ahead of your new CEO joining next year, or should we expect more clarity on the leather goods strategy after he joins in the summer next year?

And finally can you clarify just what FY'17 PBT expectations you're comfortable with now, so £415m consensus during Q1 was the number post FX of £35m that should be around £450m, I assume you're still comfortable with £450m for next year, so that would be flat year-on-year in FY'18, or is it too early to talk about this? Thank you.

Carol Fairweather, Chief Financial Officer
So in terms of wholesale you're saying will we have finished the elevation and brand clean up by the end of this year? No I don't think so. We've always said we've got a little way to go still in the US and honestly we've got a little way to go in terms of the other lines other than My Burberry and Mr Burberry in beauty.

When Christopher spoke in May we talked about the fact that our growth initiative around retail products and digital where we expect to be able to return to outperforming sector growth, will allow us to continue with the clean up and brand elevation and still be delivering good top line and bottom line growth. So to manage your expectations, a little bit more to do, but we'll do it as we always do in a responsible way as we move forward.

Charlotte Cowley, Director, Investor Relations
In terms of bags, I don't think we're going to start drilling down in terms of growth rates on different categories, but suffice to say we're very pleased with the performance of bags in the second quarter. As Carol said the commercialisation of some of the runway shapes, the performance of the rucksack, taking the Buckle Bag now and introducing that into a nice solid leather tote in store and the early indications from the Bridle Bag down the runway that was, as Carol said, our number one selling item from the September collection and available in all our stores immediately after the show.

In terms of the planning, yes we're working through the category management piece with bags I think we're being much more strategic in the way we're thinking about the category, so I'd expect to see more of that coming through into next year.

And on the profit, your maths absolutely worked, so through the first quarter consensus was about £415m and the only new news today is the incremental FX.

Thomas Chauvet, Citigroup
So it's still £450m for next year?

Charlotte Cowley, Director, Investor Relations
Well next year - I think it's a bit early, you know we haven't really started putting the budgets together Thomas on that yet.

Thomas Chauvet, Citigroup
Sure, but no major changes in terms of how you think about …

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Charlotte Cowley, Director, Investor Relations
Not that I can think of at the minute no.

Julian Easthope, Barclays Capital
Good morning everyone, three questions from me if I may. First of all in terms of the see now buy now revenues, do you think those revenues are actually just brought forward into this quarter, or do you think they're cannibalised or incremental, and are they actually meaningful in the Group context?

A second question in terms of one Burberry, obviously this is still probably quite early but you've now got the stores based on the one Burberry with the lower SKUs, and I think you said that your original pilot saw sort of mid single-digit or reasonable growth anyway, I just wondered whether you've got any sort of further update on that?

And just looking at your second quarter, you've obviously done 3% growth in terms of retail, with the Chinese cluster down, I just wondered if you look at your clusters globally who are the people that are actually performing on a global basis, is it the Europeans or the Americans globally, it would just be interesting to know where the growth is coming from? Thank you.

Carol Fairweather, Chief Financial Officer
So in terms of see now buy now, we were delighted with the first implementation of our straight to consumer Runway show. It is as you say, I mean if you think about it our sort of runway collection is about 5% of our sales globally and remember the show only happened towards the back end of the quarter, so I wouldn't say it had a meaningful impact on the sales number in the quarter, I do think that we were really pleased with the response to the show across every dimension. So be it, you know brand reach, be it you know share of voice, magazine covers.

But in terms of sales, even though it was small Julian it exceeded our own internal expectations, mens and womens both, because remember it was the first time we've combined the mens and womens shows, I would call bags as probably - the Bridle Bag was available in every single one of our retail stores globally, perfect execution by the supply chain straight after the show and has already risen to become our third biggest selling category. And likewise the whole military sort of theme across both mens and womens has proved very successful. So small in terms of absolute numbers, but in terms of very successful implementation we were delighted at every level about the halo effect that it brings to the brand.

Charlotte Cowley, Director, Investor Relations
And then in terms of one label, so the new labelled products are starting to land in stores. All new product coming in in November will be the new label product and that will also reflect the SKU reduction we put through in the May market, you'll remember we reduced SKUs to improve the visibility of newness and fashion in stores, so that will come through in November.

In terms of modelling any improvement, remember when we said we tested at the pilot store, remember pilot stores are always managed to within an inch of their lives so they always tend to outperform, so I wouldn't factor in a significant upgrade from that, but suffice to say we were pleased with the performance in the pilot stores, which is why we've decided to roll that out globally.

And then your point on customers, yes the groups who grew in the half - we certainly saw growth from the US consumer globally, good growth from European consumers globally and other Asia consumers, you know, offsetting that decline from the Chinese.

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Julian Easthope, Barclays Capital
Fantastic, thank you ever so much.

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Annabel Gleeson, Redburn Partners
Hi, just three questions. The first is could you quantify in wholesale what's the impact of the destock versus the sort of activity that you've taken?

The second one is it seems that you are underperforming the Chinese consumer globally. I think LV was talking about up double-digits so I was wondering why do you think that is?

And the third one is given that you've sort of had this amazing halo effect from the see now buy now; did you sort of see a sequential improvement through the quarter? Was the exit rate actually a bit higher than maybe the whole quarter itself?

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Carol Fairweather, Chief Financial Officer
In terms of your question on wholesale Annabel, the way we're saying it is that that's the demand - was the demand that they asked for. There would have been ways in which we could have improved on that position which would have meant we were down less. We chose deliberately not to do that so it's quite difficult to actually unpick that.

There's an element of as we have been doing over the last few years of ongoing elevation in the wholesale account, but what we saw in this half was the fact that they came in and bought considerably less. What we chose to do was not to engage in any conversation to try and improve on that number which we could have done through improve the discount channels, giving enhanced markdown because we really wanted to control inventory into that market.

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Annabel Gleeson, Redburn Partners
Sorry is there any element that you've lost space if I put it like that?

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Carol Fairweather, Chief Financial Officer
No we're happy overall in terms of space. This is about their own demand in terms of just what is happening in the US wholesale channel, and we could have potentially offset quite a lot of that had we been prepared to do something around putting more inventory into that market. But not something we were prepared to entertain at all and that's why we continue to take this balance of strategic action to make sure that we continue to elevate and protect the brand in that market, where we've still got a little way to go to get us to the level that we'd like to be at in terms of our luxury positioning.

In terms of the halo effect I mean as I said the show was a great success. Remember it was only mid-September and therefore given one, the percentage of sales but also in terms of footfall it drove to the store too early to - we don't talk about trends throughout the quarter so nothing specific to call out, but just to say we were very pleased with the response was saw to the show across every single dimension.

Charlotte Cowley, Director, Investor Relations
And then in terms of the Chinese consumer, remember that about half of our sales to the Chinese consumer still occur in Mainland China so that number will be depressed because of the work that's going on in Beijing, because when we talk about our customer growth we are talking about it on a comps basis so that will be maybe a factor there. And about a quarter of the spend is in Europe and of course we talked about the strength of that in the UK. And then you've still got about 15% odd of our spend from Chinese consumers is in Hong Kong and Macau and we did say that although we saw a slight improvement in the quarter, that was still down double-digit.

Mario Ortelli, Sanford Bernstein
Good morning. The first question is about pricing. Which pricing action are you planning for the second half of the year? Are there reductions that you see as well or selective price increases?

The second one is about outlets and off price. We see the general market of luxury that the sale of outlet and off price are growing much faster than grow the market. What did happen in the first half of the year for you? The sales of your outlet shop were increasing more than the full price shop, and which is your outlet strategy going forward? Some brands are announcing some selective closures of some outlets, some others are increasing.

And last but not least Hong Kong, we have seen many, many quarters of negative performance in Hong Kong. What percentage of your current sales is done in Hong Kong and what action have you done to decrease the cost base there? Are you closing the shops, are you decreasing the surface of some of the shops, are you decreasing the rents with the landlords? Thank you.

Carol Fairweather, Chief Financial Officer
On pricing, as I mentioned earlier, we did adjust prices down as we had planned to in China and Hong Kong in September. We keep pricing under constant review. As I said we don't make kneejerk reactions when FX rates change. That said we keep it under constant review but we've got nothing else to update on specifically today other than to say we will obviously watch it closely over the coming months as we always do.

And then in terms of outlets and off price, we don't actually split out ours as a percentage of sales, what we do say is that the raison d'être for our outlet is simply to exit in a brand appropriate way excess inventory. That remains the rationale over the life of our plan and the financial ambition for the next three years, in the same way that we would expect to see further elevation in US wholesale and look to reduce that. As our mainline full price sale continues to increase we would naturally expect outlets to reduce as a percentage of sales, plus as our productivity increases there will be less inventory dropping down to outlets. So I would expect to see outlets decreasing as a percentage of sales going forward but I imagine we would always want to have an outlet business in order to exit the inventory appropriately.

Charlotte Cowley, Director, Investor Relations
And then in terms of Hong Kong, it's now probably about 8% or so of the Group revenue. Remember we've got seven mainline stores in that market, I think that's similar to the peers. We of course tightly manage costs; we've talked in the past about managing headcount in the retail stores and also talked about achieving some rental relief from some of the stores. We have also talked - I think last year we told you about the fact we were reducing the space of our Pacific Place store. That will start I think it's towards the end of this year in terms of space reduction. But all stores are still profitable. As with

every store when every store comes to the end of its lease we'll look at the store on its merits and decide what to do, but all stores still profitable in Hong Kong.

Mario Ortelli, Sanford Bernstein
And sorry just one clarification about outlets. In the first half of the year the sales of your outlets increased more over general retail sales of Burberry or not?

Carol Fairweather, Chief Financial Officer
No we don't split it out - we've never disclosed how outlets perform as a percentage of the total Mario.

Mario Ortelli, Sanford Bernstein
No it was relative performance; I didn't ask which percentage of the total.

Charlotte Cowley, Director, Investor Relations
I don't think we're going to be drawn.

Melanie Flouquet, JP Morgan
My first question is regarding Asia Pacific on the like for likes. I'm trying to square down the fact that Mainland China improved, even if you take account of Beijing, to mid single-digit, Hong Kong and Macau remained difficult, Korea probably stayed the same. What actually deteriorated in Q2 for the trend to be exactly the same in Q2 as in Q1, or broadly the same?

Carol Fairweather, Chief Financial Officer
In terms of Asia Pacific you're right, I mean China was up, Hong Kong marginally better but still [down] double-digit, Korea no real change. I mean Japan and a couple of the other smaller markets did decline for us in Q2 so I think that's why at the overall level there was no change. So it's really increase in China offset by smaller decreases across two or three of the other markets in Asia.

Melanie Flouquet, JP Morgan
And if I took out the Beijing reshuffling would your Mainland Chinese cluster - what would that look like in Q2?

Carol Fairweather, Chief Financial Officer
It would be up double-digit Melanie.

Melanie Flouquet, JP Morgan
No that's Mainland China, local, the cluster? I mean I suspect the answer is roughly 2.5 points higher no?

Carol Fairweather, Chief Financial Officer
Something like that. Yes positive low single-digit I would have thought.

Melanie Flouquet, JP Morgan
Okay. And then sorry I'm going back to this Americas question. Some of this was because the demand is weak, some of it is you decided strategically to not overstuff this market. Overall Americas and as we stand back other indexes on wholesale in your business, do you think that moving forward this should be more in line with your exposure to wholesale worldwide?

Carol Fairweather, Chief Financial Officer
I think what we would be looking to do Melanie in the US going forward is to reduce those less brand appropriate wholesale presence in certain stores, but we would like to see growth in the wholesale channel in the good doors and also we see digital wholesale as an opportunity. So I think not being prescriptive on how we see wholesale changing as we look forward, but I would say that what we're doing is looking to elevate, so to reduce in the brand appropriate and elevate in terms of brand appropriate presence and also the opportunity in digital wholesale. I think it was something like 70% retail in H1 in the Americas so it's reducing effectively as a percentage of sales.

Melanie Flouquet, JP Morgan
But exactly, it's reduced by 25% to get to the 70% retail so -

Carol Fairweather, Chief Financial Officer
Yes that's right.

Melanie Flouquet, JP Morgan
Is this is a rebasing in effect that we should assume will stay on? Apparently it's been done through a lower demand but ultimately your strategy is to remain at 30% wholesale?

Carol Fairweather, Chief Financial Officer
Yes I think we've always said that in terms of the wholesale channel if that is the way in which US department stores want to operate with us, and we'd love to do concessions, we can't at the moment, then US department stores will continue to be an important channel for us. And therefore it's about us managing, it's very much about how we continue to elevate in that channel and therefore we'll control demand as best we can as we move forward in order to make sure that we get the right presence. We believe that we do need to be in US department stores, we need to be in US department stores online but it's about how we manage through that over the coming years and that's why we've been so pure this half in terms of not pushing that number, and therefore I think it will be a combination of underlying demands and us continuing to elevate.

Melanie Flouquet, JP Morgan
Okay perfect. And so my next question is on prices. If I'm not mistaken you tend to move prices in April and in October, so twice a year linked to the collections whereas some of your peers do it sort of more regularly in the year because they are not exposed to ready to wear as much and to collections as much. So October has already been done and it was a price cut in Greater China. Why didn't you decide to increase prices in the UK? Because faced with the same challenges last year quite a lot of European companies increased prices in Europe.

Carol Fairweather, Chief Financial Officer
As I said just now we keep pricing under constant review. The timing can change a little bit year on year, there's nothing we have to announce today. As you say we don't just adjust prices ad hoc as we go through seasons but we are looking at it strategically. We look to see what peers are doing because we want to keep the relative benchmark against them, and we will review it - keep it under review going forward, and if and when we have something to announce we'll obviously do that.

Melanie Flouquet, JP Morgan
So you could do something in between October and April basically?

Carol Fairweather, Chief Financial Officer
Yes. I mean we're saying that the China ones were planned for September, that was very strategic as part of trying to realign the pricing architecture in China. And as I've said before when FX rates move we do look to maintain as best we can the global pricing architecture but we don't move them day to day, so we're keeping it under constant review and watching it closely.

Melanie Flouquet, JP Morgan
And my last question sorry is the store network. I notice that you mention that there will be a slight increase in space growth leading to 15 store openings and an equivalent number of store closures. Can you tell us a little bit more about these openings and closures? Geographically are you reallocating your stores? Is this just getting to better locations? How should we read this plus 15, minus 15?

Charlotte Cowley, Director, Investor Relations
Yes so there's no change to that Melanie so that's what we've been talking about all year. So they're still working through some of the store portfolio in China for example, there's been a little bit of work in some other markets in Asia, so it's the same story of moving to slightly better and on average slightly larger locations but nothing really in terms of sort of a geographic shift.

Melanie Flouquet, JP Morgan
So to the same regions but just reallocating the stores?

Charlotte Cowley, Director, Investor Relations
Yes.

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Melanie Flouquet, JP Morgan
Okay, thank you very much.

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Rogerio Fujimori, RBC Capital Markets
Hi everyone. Carol I think you've mentioned that outerwear in women's didn't perform as well. Could you talk a little bit about the performance in heritage trench coats in the half? That's my first question.

And then my second question is I can see that between the end of June and the end of September you closed eight concessions and nine franchise stores. Could you confirm that this was all in the Americas region? Thank you.

. . . .

Carol Fairweather, Chief Financial Officer
Yes in terms of the performance of heritage trench coat, we didn't see growth in that category this quarter. That said we've got festive ahead of us, we continue to innovate around the trench coat, you'll have seen what Christopher did on the runway in September. So it's an important one of our icons and we would expect to see growth over the coming quarters. It's just the way numbers have materialised this quarter particularly with the strength that we've seen in bags.

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Charlotte Cowley, Director, Investor Relations
In terms of stores, on franchised stores there were some in Europe, some of the Americas, so yes nothing - it wasn't all in one location, so generally just a few closures there. And elsewhere on the stores as I said the work going on in China is probably quite a big part of the concession number because remember quite a few of the stores in China are concessions.

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Rogerio Fujimori, RBC Capital Markets
Okay thank you.

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Carole Madjo, Haitong Securities
Hello, good morning. A few questions from me. First of all can you give us some insight on productivity? Have you seen some improvement there following your recent initiatives?

Second thing South Korea, can you maybe comment on the trends that you are seeing there? I think that you said there were some quite easy comps there the third quarter so can you tell us why there was no real changes there?

And lastly just a clarification on your adjusted PBT. So did you say that you are currently expecting PBT of £450m for this year? Thank you.

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Carol Fairweather, Chief Financial Officer
So I'll talk about productivity. I mean we're delighted because as I said notwithstanding footfall being down conversion was up both online and in our stores this quarter so very much all of those measures we've got around retail initiatives beginning to kick in as we saw conversion increase again. So yes productivity we know is our single biggest opportunity and great that we're making progress in that.

In terms of South Korea, for us it was broadly flat quarter-on-quarter. Remember for us it's largely a domestic market so something like 80% to 90% domestics. I think others may have seen - or maybe I think it's over 90%. I think others may have seen an improvement because of travel retail. For us Korea travel retail is a wholesale market and within our wholesale guidance for H2 we are seeing growth in Korea travel retail. So that explains the pattern that we have seen in the first half for South Korea.

And in terms of adjusted PBT?

Charlotte Cowley, Director, Investor Relations
Yes absolutely. So it was £415m including the £90m of FX, so the only new news today is the incremental 35 plus for exchange rates. So as you say that would take you to about £450m or so.

Carole Madjo, Haitong Securities
Okay perfect, thank you.

Charmaine Yap, Jefferies
Hi thank you. I was just wondering in terms of FX are you able to guide or help us think how we should model for full year '18? Should there be a negative impact or have you changed any of your hedging policies given the volatility of currency release? So any help there would be appreciated, thank you.

Carol Fairweather, Chief Financial Officer
No, absolutely no change to hedging policy. But what we are saying, clearly it's very early days in terms of next year. Clearly the way rates have moved there probably would be some benefit from translation like in H1 next year, obviously H2 at the moment we would translate at the same spot rates that we're currently at.

That said I think there will be some pressure on procurement because clearly whilst we've hedged part of our procurement we have yet to hedge some further seasons and we don't - and that has yet to come through. So early days. I mean we've run some models here. I would expect a translation benefit in H1 but I would expect that to probably be offset to some degree if not all by procurement, but we need to wait until we've got further clarity around the sort of mix of our budgeted revenues and costs for next year, and until we have fully hedged the second season of next year.

Charmaine Yap, Jefferies
Okay thank you.

Julian Easthope, Barclays Capital
Thank you once again. Just a follow up on pricing actually. I know you've obviously talked about China going down and the UK staying flat. I just wondered what your average pricing has actually done then this year or at least in the latest round of changes? Has there been offsetting numbers elsewhere? Thank you.

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Charlotte Cowley, Director, Investor Relations
Yes actually still a little bit positive for the quarter so net-net AUR up.

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Julian Easthope, Barclays Capital
Thank you very much.

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Carol Fairweather, Chief Financial Officer
Okay so thank you very much and we look forward to speaking to you again on the 9th of November with our interim results. Thank you.

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