BY APPOINTMENT TO
HM QUEEN ELIZABETH II
WEATHERPROOFERS
BURBERRY LIMITED LONDON

BY APPOINTMENT TO
HRH THE PRINCE OF WALES
OUTFITTERS
BURBERRY LIMITED LONDON

BURBERRY

London, England

ANNUAL REPORT 2016/17

ANNUAL REPORT
2016/17

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BURBERRY
London England

FINANCIAL HIGHLIGHTS

Revenue (Year to 31 March)

£2,766M

2017	**2,766**
2016	2,515
2015	2,523
2014	2,330
2013	1,999

Adjusted profit before tax (Year to 31 March)

£462M

2017	**462**
2016	421
2015	456
2014	461
2013	428

Profit before tax (Year to 31 March)

£395M

2017	**395**
2016	416
2015	445
2014	444
2013	351

Net cash (As at 31 March)

£809M

2017	**809**
2016	660
2015	552
2014	403
2013	297

Adjusted diluted EPS (Year to 31 March)

77.4P

2017	**77.4**
2016	69.9
2015	76.9
2014	75.4
2013	70.0

Adjusted diluted EPS is stated before adjusting items.
Reported diluted EPS 64.9p (2016: 69.4p)

Dividend per share (Year to 31 March)

38.9P

2017	**38.9**
2016	37.0
2015	35.2
2014	32.0
2013	29.0

Adjusted measures, underlying performance, comparable sales, lease adjusted net debt and free cash flow are defined on page 54.

STRATEGIC REPORT

INTRODUCTION

This is Burberry's Strategic Report for the financial year ending 31 March 2017. The Report sets out information on the Burberry brand, business operations, strategy, people and responsibility activities.
The following messages from Sir John Peace and Christopher Bailey highlight Burberry's performance during the year and the outlook for the Company.

CHAIRMAN'S LETTER

Good early progress against Burberry's ambitious plans.

Sir John Peace
Chairman

Last year I highlighted the fundamental changes taking place in the luxury sector and in consumer behaviour. These were influenced by a challenging global environment, which had impacted the performance of the sector as a whole, as demand slowed sharply in many of Burberry's key markets. To stay ahead of these changes and to create future value for shareholders, we announced an acceleration of our productivity and efficiency agenda, particularly looking at our ways of working. We identified significant future organic revenue growth opportunities and a programme of actions to deliver at least £100m of annualised cost savings by FY 2019.

The Board also considered with Christopher Bailey, the shape of the leadership team required to maximise our growth opportunities and to successfully implement these plans. It was concluded that there was a need for a new chief executive with strong luxury retail experience to lead on the commercial, operational and financial elements of the business, who could partner closely with Christopher, who would continue his leadership of the brand and design elements of the business as President and Chief Creative Officer. Since taking on the combined role of Chief Creative and Chief Executive Officer, Christopher has made significant progress against a backdrop of challenging market conditions. The Board is appreciative of his efforts in working with the Board to identify a new chief executive to partner with him on the execution of our growth plans.

As Carol Fairweather and John Smith had signalled their intention to step down as Chief Financial Officer and Chief Operating Officer respectively, focus was also on the succession of these roles, with the decision to combine them to align with the change programme.

The Board unanimously supported the appointment of Marco Gobbetti as Chief Executive Officer who will join the Board on 5 July 2017 (with Christopher transitioning to his new role at that time), and Julie Brown who joined the Board as Chief Operating and Financial Officer on 18 January 2017. The Board believes that the combination of Christopher's creative talent and vision for Burberry and Marco's extensive skills in luxury and retail, as well as Julie's financial and commercial track record, will provide strong leadership for the next phase of Burberry's evolution.

The Board would like to thank Carol Fairweather for her immense contribution to Burberry over the past ten years, and John Smith for his contribution to Burberry over the past seven years, first as a non-executive director and latterly as Chief Operating Officer. We wish them all the best for the future.

Financial performance and shareholder returns
As a whole, the luxury sector has continued to remain challenging during the year, with some signs of improvement during the second half. We have made strategic long-term choices to strengthen the brand and reposition Burberry for growth over time, and good progress with the implementation of our programme including the establishment of our five key pillars to underpin our growth and productivity agenda. More detail on our progress is set out in Christopher's letter and in this Report.

Burberry has delivered 2016/17 revenues of £2.8bn (down 2% underlying), and adjusted profit before tax of £462m (up £42m and down 21% underlying). This was in part impacted by a decrease in licensing profit due to the planned expiry of our Japanese licences and other actions we have taken to build and reinforce our brand positioning. We also delivered the planned £20m of cost savings in FY 2017. This is expected to build to c. £50m in FY 2018 and is on track to deliver the target of at least £100m annualised in FY 2019.

The Group ended the year with a strong cash balance of £809m, up £149m year-on-year after £97m of share buyback and £164m of dividends. Consequently, the Board has recommended a 5% increase in the full year dividend to 38.9p, in line with our progressive dividend policy resulting in a 50% pay-out ratio based on adjusted earnings per share. This reflects the Board's confidence in the future growth of the business.

Our approach to capital allocation is based on a framework which defines our priorities for uses of cash, underpinned by our principle to maintain a strong balance sheet with solid investment grade credit metrics. This underlines our commitment to increasing shareholder returns over time, which remains a key priority for the Board.

Over the past five years, Burberry has returned around £700m to shareholders through dividends, and in April 2017 completed £100m of a £150m announced share buyback. A further share buyback of £300m will be completed in FY 2018, in addition to the £50m already announced. This is inclusive of the distribution of the Coty upfront sum.

Other Board developments

The composition of the Board has evolved significantly over the past few years with the appointment of four new non-executive directors and one longer-serving Board member stepping down. Further changes are planned over the coming year. The aim is to continue to refresh the Board while ensuring stability and continuity, particularly in the context of significant management change.

Following a previous review of the Board Committees, changes were implemented during the year. This included the appointment of Jeremy Darroch as Chair of the Audit Committee and Fabiola Arredondo as Chair of the Remuneration Committee, as well as changes to the composition of those Committees.

People and pay

Our new Remuneration Policy will be presented to shareholders for their vote at our upcoming Annual General Meeting (AGM), and so our Remuneration Committee Chair Fabiola Arredondo has been meeting with our shareholders and consulting with them on the proposed Policy. You can read more about the Policy in the Directors' Remuneration Report on pages 87 to 111.

Governance and diversity

The Board seeks to operate to the highest standards of corporate governance. The work of the Board and its Committees during the year, along with the assessment of its performance, is set out in the Corporate Governance Report on pages 70 to 86. Burberry continues to support diversity in all its forms across the organisation including the Board. While all Board appointments are made on merit, the Board continues to believe in the importance of a diverse Board and has always had strong gender diversity amongst its membership, including at executive level. The Board will continue to monitor diversity, including across the business, and to take such steps as it considers appropriate to maintain its position as a meritocratic and diverse business.

Looking ahead

To conclude, this has been an important year of change for Burberry, not only due to macro trends but also the way that Burberry operates as a business. Looking ahead to 2017/18, we will continue to focus on our brand, our products and the execution of our key strategies. Although there is still much to be done as Burberry continues its multi-year programme, the Board firmly believes that the new leadership team coupled with the actions we are taking, will significantly enhance our ability to deliver long-term sustainable growth.

Finally, I would like to thank all of our people for their hard work and dedication, particularly during this time of change for Burberry. I would also like to thank the Board for its hard work and commitment to Burberry, and to thank you, our shareholders, for your support over the past 12 months.

CHIEF CREATIVE AND CHIEF EXECUTIVE OFFICER'S LETTER

2016/17 was a foundational year for Burberry, in an environment that remained challenging for luxury – although with sector dynamics improving in the second half. Against this backdrop, we continued to elevate our luxury retail and digital business, and began implementing wide-ranging changes for the future.

Christopher Bailey
Chief Creative and Chief Executive Officer

With recent estimates suggesting a broadly flat performance in calendar 2016, the subdued result from the sector as a whole reflected fundamental shifts that have been shaping the industry over the past few years, including slowing Chinese consumption, reduced scope for space expansion and less pricing flexibility. The impact of these trends was exacerbated during the early part of the year by macro factors such as sluggish developed and developing economies, and consumer unease and travel disruption linked to geopolitical events.

However, we also began to see clear signs of recovery in the industry towards the end of the year, as the Chinese consumer rallied, Continental Europe improved and the UK continued to enjoy strong tourism with the sustained weakness of sterling following the Brexit vote. These contributed to an improved sector performance in calendar Q4, following nearly two years in flat or negative territory. Our own performance was consistent with these broader trends.

While these more encouraging signs have continued into the start of 2017, some challenges remain – not least for us given the uneven performance of the US and Hong Kong markets, both key for Burberry. As such, the outlook for the sector is mixed, with industry experts continuing to anticipate more tempered growth in the medium term, compared with the historic highs of the post-financial crisis years.

Alongside this more moderate growth outlook, we anticipate the industry will be shaped by different dynamics in the years ahead. Our customer is evolving rapidly, prioritising more distinctive experiences, more personal relationships with brands and greater product innovation. The influence of digital technology is extending still further across every aspect of what we do – from production techniques to the customer experience, in every channel. And demographic changes, from the maturing of millennials to the intensification of wealth in cities, mean we must keep developing and tailoring how we think and work to stay ahead.

Against this backdrop, we continued last year to take actions to elevate our luxury retail and digital business, strengthen our brand and reposition Burberry for growth, as we maintained our focus on maximising long-term shareholder value. In addition to our ongoing actions in wholesale and licensing, this included our announcement last May of a multi-year programme to accelerate our productivity and efficiency agenda, having identified significant opportunities across our existing channels, products and regions, and our ways of working. We touched on these in our last report, and have since distilled them into comprehensive plans covering five key areas: Product Focus; Productive Space; E-commerce Leadership; Operational Excellence and Inspired People, the detail of which I will turn to shortly.

To deliver on this ambitious programme we have also strengthened our executive leadership team with the extensive luxury experience of Marco Gobbetti, who will take on the role of Chief Executive Officer in July 2017, and the transformation expertise of Julie Brown, our new Chief Operating and Financial Officer. And we have made further appointments over recent months to complement and enhance the existing skills of our senior team, including in key areas such as design, merchandising, technology and brand experience.

As such, the scope and scale of the changes we are making to our business are significant, and it will take time to realise their full benefits, particularly in respect of revenue growth. But our progress with laying the foundations for the future is encouraging.

Performance summary
Before turning to our renewed productivity and efficiency agenda, let me first summarise our performance for 2016/17.

Revenue was £2.8bn for the year, down 2% underlying, with retail outperforming at up 3% overall and up 1% on a comparable store sales basis. A notably strong performance in EMEIA, driven by the UK, and an acceleration in mainland China were offset by continued challenging conditions in other markets including the US and Hong Kong, as well by the impact of our ongoing actions to build and reinforce our luxury brand positioning for the future. This included the loss of licensing income as we build our direct operations in Japan, the rationalisation of wholesale distribution globally, including in Beauty, and actions to protect the brand in a highly promotional environment in the US.

With adjusted profit before tax down 21% underlying to £462m, these factors weighed on the bottom line – although their impact was partially offset by the delivery of £20m of planned cost efficiencies in the year, and our plans are on track for at least £100m by 2018/19.

We ended the year with a strong net cash position, up £149m to £809m, and we increased the full year dividend to 38.9p, up 5%. In April we completed £100m of a £150m announced share buyback. A further share buyback of £300m is to be completed in 2017/18, in addition to the £50m already announced. This reflects the Board's confidence in the growth prospects for the business and its ongoing commitment to maintaining a strong balance sheet with solid investment grade metrics.

While we actively managed the business through near-term market dynamics during the year, we also continued to take actions to position it more strongly for the long term. As noted above, this included starting to implement a wide-ranging productivity and efficiency programme to enhance future growth. While we are still early in this process, progress across its five areas of focus underpinned a number of improvements through the year – from the outperformance of fashion and strong growth in leather goods, to improved mainline retail conversion and customer retention, to the delivery of enhanced efficiencies. These initial results give us real confidence for the future.

Product Focus
The first pillar in this programme is to move from product breadth to product focus. This will allow the customer to connect more readily with the creativity, craft and storytelling that define and differentiate our offer. With significant scope to simplify our assortments, amplify the excitement in our products across price points and tailor our offer more effectively to the needs of the customer in different locations, we began to make changes in the year to unlock this opportunity.

Building a more strategic approach to drive outperformance in our core categories has been a central focus, with comprehensive plans now developed for the product areas we have identified as having the greatest growth potential for the coming years. The first area in which we have begun to implement this new approach is bags, with full price sales up 16% in the year. In line with our evolved strategy for the category, this was driven both by new launches such as the Bridle and Buckle bags, as well as increasing novelty in our more established styles. While we are still at the early stages of our plans for bags, this strong initial uplift is illustrative of the benefits we expect to build across other areas over time, with a pipeline of categories to follow.

The second key area of progress is how we are evolving our merchandising approach, with particular emphasis on cultivating the local customer – a key opportunity for us. Our move to one Burberry label globally, together with reducing our assortments by 15 to 20% over the year, have been fundamental steps in creating the conditions to realise this opportunity. Then, within this significantly simplified assortment, we have implemented new tools and ways of working that mean we are more effectively tailoring our assortments to the individual needs of stores in different locations – from climate, to customer profile. Finally, this more streamlined approach is also allowing us to give far greater visibility to the fashion and newness that is so critical to building loyalty and repeat custom. This was reflected in the outperformance of fashion during the year, including the growth of our runway collections and the successful introduction of our new, lightweight tropical gabardine.

All this is being enabled by changes to how we work across our product functions, to improve collaboration and focus from design to delivery. Part of this has been structural, with the evolution of our organisational model towards an end-to-end category management approach, meaning we are building cross-functional teams specific to the potential of each category, with shared accountability and KPIs. And we are reinforcing these structural changes by redesigning our processes as needed, for example getting local input earlier in the cycle. This is a significant evolution for us and although the changes will take time to embed, we are already seeing early benefits across our business.

The final area I would highlight in respect of product is the announcement we made just after the year end of a new partnership with Coty, to accelerate the growth of Beauty. Consistent with our drive for greater focus across our product offer, this follows the successful repositioning and elevation of the business over four years of direct operation. Looking ahead, we will continue to lead all creative aspects of Beauty, while benefiting from Coty's first-class industry expertise and distribution. We will transition to this new model in October 2017 and expect the deal to be earnings accretive from 2018/19.

<u>Productive Space</u>
Our second pillar is to move from new space to productive space. Following a decade of geographic expansion, our focus in this next phase is shifting to how we make all our space more productive – retail and wholesale, online and offline, and with an emphasis on our full-price channels. We have significant opportunity here.

The foundation of our activity over the past year has been our Retail Excellence programme, covering all aspects of our retail operations, including how we serve our customers, approach customer cultivation and manage our stores. Results this year show good early traction.

Within service, we increased our investment in training and introduced a new service model ('CLIENT'), and we are currently embedding a new global customer feedback programme based on net promoter scores. These actions helped drive improvements in conversion and retention globally – with room for continued growth. Within cultivation, we accelerated the expansion of our Customer Value Management programme and Private Client teams to bring more customers closer to our brand and products through appointments, events and experiences. This richer, more personalised approach drove a significant uplift in repeat business in the year. Finally, within operations, investments in areas including point of sale systems and new staff scheduling tools drove improvements as we seek to standardise and simplify our processes globally. A standout area of progress here was our omni-channel programme, which has significantly increased the amount of product available to our online customers by enabling us to fulfil e-commerce orders from store stock.

Alongside this initial emphasis on our retail business we are sharpening our focus on how we inspire customers more consistently across channels, not least working closely with our wholesale partners to create a stronger, more carefully curated Burberry offer globally. With scope to accelerate this activity to drive still-greater coherence and support brand perception, this is important work for the future.

<u>E-commerce Leadership</u>
Through early investment and focus, we have established a leading position in digital in our industry, with more than 48 million followers on social media worldwide and a 'Genius' ranking from the influential think-tank L2. We aim to consolidate this leadership position over the coming years, while deploying it more assertively to drive online sales on our own website, and through third parties. From enabling seamless customer journeys across digital platforms, to using technology to service our customers in stores, and – critically – linking these online and offline worlds, we are well-placed to extend our leadership in this area.

The evolution of Burberry.com was a key focus during the year. The relaunch of the global site on mobile and desktop offered customers a richer brand experience at the same time as better functionality, improving conversion on both platforms and driving mobile to nearly 60% of our online traffic. Meanwhile, the redesign of our China site to tailor it more effectively to local preferences and behaviours drove increases of around 70% in direct-to-consumer sales, while giving valuable insights for our overall site development for the future. Finally, we soft-launched our new customer app towards the end of the year, ahead of a global rollout early in 2017/18. This will offer a more personalised shopping experience for our customers, both online and by linking them more effectively to our stores and sales associates globally.

This emphasis on facilitating experiences across the physical and digital worlds has long been a focus for Burberry, because it reflects how our customers live today. And we have never been more excited about the opportunities that technology offers in this space, nor more convinced it must be central to how we evolve our offer. Whether partnering with leaders in social media to bring our physical moments to life for online audiences, or enabling purchases straight from the runway for next day delivery globally, we see great future potential here.

Finally, we saw particularly strong growth in sales through third parties over the year, as we enhanced our focus on developing our relationships in this space. For example, we collaborated with established offline partners including Harrods in London, Shinsegae in Korea and Barneys in the US to develop unique products and experiences for their websites; we deepened our relationships with pure play online retailers such as My Theresa and Moda Operandi through elevated digital experiences for our runway shows and collections; and we continued to innovate in the area of social commerce, including making exclusive products available for purchase via WeChat. These kinds of partnerships will form an important part of realising our future e-commerce ambitions and we have exciting plans ahead.

Operational Excellence

Our fourth pillar, Operational Excellence, is focused on driving efficiency and investing appropriately to support our wider growth plans. We have real headroom in this area, with particular scope to simplify our processes, procure more effectively, optimise our inventory management and improve information and technology.

Turning first to processes, following a detailed review of opportunities to standardise activities across our shared services we moved towards a simpler, single global way of working during the year, which drove good initial results. We intend to accelerate these in 2017/18 with the planned establishment of Burberry Business Services in Leeds, a new centre of excellence in which we intend to bring together our UK and EMEIA shared services teams from Commercial Procurement, Finance and HR, as well as some customer service and IT roles.

In procurement, we have begun to make changes that will enable us to realise significant financial benefits over time, including through the implementation of a new technology solution to streamline how we manage our non-stock purchases and using customer insight data to target our marketing spend more effectively.

We also made further improvements to our inventory management process as we seek to provide our customers with a great experience, wherever and however they are shopping with us. Actions during the year included the expansion of our single pool of inventory programme, which allows us to fulfil customer orders from stock in both hubs and stores; quicker delivery times and enhanced delivery information for online purchases; and a new, facilitated returns process.

Finally, the further development of our technology infrastructure is underpinning many of these early advances and will be central to delivering on our broader commitments across all of our strategic priorities over time. With work well progressed for new digital tools that will improve how we operate in areas from planning, to supply chain, to enhancing customer service in stores, we have an ambitious plan in place to initiate further changes to our systems over the coming year. This will prioritise business continuity, security and the rollout of a common, standardised technology platform globally, to facilitate efficiency business-wide.

Inspired People

These changes to our systems and processes will be complemented by an evolution of our overall ways of working, which form a critical part of our final pillar, Inspired People. Our focus here is to ensure we have the right skills and capabilities to meet our strategic objectives, that we build an organisation that is the right shape and size for the future, and that our teams are motivated and inspired. We consider this work fundamental to the successful delivery of our overall productivity and efficiency ambitions, and are putting commensurate energy and care into its execution as we manage our organisation through a period of significant change.

An important early step has been detailed work to consider how we might evolve our operating model. This has focused on how our structure could better support our aims of driving greater global consistency while better meeting the needs of our local customers, as well as simplifying our broader ways of working. We are currently concluding this work as we design our organisation for the future, and changes are already underway.

In tandem with changes to how we are structured and how we work, we have also renewed our focus on culture through a more vibrant engagement programme, designed to reignite our values of ‘Protect, Explore and Inspire’ and our distinctive pioneering spirit. From initiatives designed to immerse every employee in the creativity and craft behind our products, to new forums that bring together our global teams around shared priorities, we continue to explore new ways to inspire and connect our people. This has been further reinforced by an increased emphasis on fostering talent at all levels in the Company, with highlights in the year including the graduation of our first cohort of Burberry Apprentices and enhanced training and development opportunities.

The final area I would highlight under Inspired People is our wider commitment to the places and communities where we live and work. This is a fundamental part of our culture as an organisation, and our focus on this area in recent years has seen us make a real impact, from the reductions in the environmental impact of our operations that saw us named last year as a Textiles, Apparel and Luxury Goods industry leader in the Dow Jones Sustainability Index for the first time, to the real difference we have made to the lives of thousands of disadvantaged young people around the world through the work of the Burberry Foundation.

Encouraged by this progress and with the appetite to do much more, we finalised plans during the year to bring together our sustainability work, philanthropic giving and volunteering under a new and more ambitious Burberry Responsibility strategy. This is designed to address the most material social and environmental challenges in and around our operational footprint and will focus on three areas: positively impacting the communities that sustain our industry; creating positive change through all our products; and achieving carbon neutrality and revaluing waste. Each of these will have a set of challenging, public-facing goals and a flagship programme to be delivered hand-in-hand with expert partners. We look forward to announcing the detail of this programme soon.

Clear objectives, timelines and success measures are now in place for each of these five strategies, and their delivery is being overseen by a newly established Transformation Management Office, reporting to our Chief Operating and Financial Officer.

Looking ahead
And so, to close, a final few words about the future.

This will be my last letter to you as Chief Creative and Chief Executive Officer of Burberry, with Marco assuming the role of Chief Executive Officer in July. In many ways, I see one of the highlights of my term as Chief Executive Officer as the recruitment of Marco to be a partner for me, and a great leader for this Company. As I transition into the new role of President and Chief Creative Officer, this evolved structure will allow me to redouble my focus on design for this next phase, and on making products and telling stories that inspire our customers. This is the essence of who we are, and what we do – and my passion for making Burberry the most compelling brand, selling the most beautiful and finely crafted products, in the most innovative ways has never been stronger.

Over the past three years I have worked with our leadership team to put Burberry on what we believe is the right track for the coming years, through a period of real challenge and change for our business and the industry as a whole. And, with a clear plan now in place, I will remain fully engaged with the implementation of this plan in my new role as I partner with Marco and our evolved senior leadership team to drive the Company’s future strategic direction.

So it is with huge optimism that I look forward to the next chapter for this brand of which I am so proud.

Over the past 161 years, Burberry has never stood still. In the past 15 years alone, this is a Company that has transformed from a predominantly licensed business, to a wholesale business, to our focus today on creating a leading luxury retail and digital business for this next phase. Which means we have shown our ability to change and adapt in the past – and we are now positioned to do so again for the future.

With so much opportunity identified across our business and a detailed programme in place to unlock it, we know this will be challenging work – and it will take time. But we are also confident of its rewards. With the right team and ways of working in place, we are ready.

BURBERRY GROUP OVERVIEW

Burberry is a global luxury brand with a distinctive British heritage of design, innovation and craftsmanship. The following pages set out brand highlights, the Company's business and operating models, information relating to its sales channels, regional presence, products, its key performance indicators and the external markets in which it operates.

BRAND HIGHLIGHTS

Burberry's brand strength is driven by a unique combination of heritage and innovation.

Burberry's ambition is to bring pioneering British creativity and culture to the world by creating beautifully made products, inspiring with storytelling and shared experiences, delivering impeccable and distinctive services, and continually innovating. This underpins how Burberry seeks to connect with its customers globally, from runway shows, campaign talent and music to digital platforms, data and insight.

The Burberry brand continues to resonate strongly with luxury consumers around the world, ending the year as one of the best known luxury brands globally*.

Key focus areas during the year

Runway shows
In February 2016, Burberry announced plans to change the way it creates, presents and sells its runway collections with the launch of its first 'see-now-buy-now' runway show. From September 2016, Burberry replaced its four-show calendar of two mens and two womens shows, with two shows. The September and February shows featured both womenswear and menswear collections. The new show format and calendar were designed with a global customer in mind. More than 300 stores had three runway looks from the February 2017 collection, and the entire runway collection was available to purchase in 80 stores globally immediately following the runway show. Both the September and February collections were also available to purchase online as the products were shown on the runway. This industry leading change removed the traditional gap between the runway show and retail availability.

For the week following the September and February shows, the public were invited to visit Makers House, the Burberry show venue. In September, Burberry collaborated with The New Craftsmen, a selection of Britain's finest craft makers, to create a daily changing programme of activities and installations showcasing their original works. In February, Burberry partnered with The Henry Moore Foundation to create an exhibition of Moore's working methods and the evolution of his iconic sculptural ideas. The exhibition featured over 40 of his sculptures, monumental bronzes, working models, drawings and maquettes.

Alongside this, a programme of events featured acoustic performances and workshops including life drawing, maquette and object making, textile printmaking and textile design. Makers House received over 20,000 visitors in September and over 30,000 visitors in February.

Digital innovation
Burberry is one of the most followed luxury companies on social media, with over 48 million followers and the brand is present on 20 social platforms including Twitter, Instagram, Facebook, Line, Kakao and WeChat. In March 2017, Burberry was ranked Number 1 Digital Leader in the ContactLab Digital Competitive Map. Thirty-two major luxury peers were researched for the study and were rated across web, email, e-commerce and social media.

During the year, Burberry launched WeChat commerce in China, and created a seamless commerce platform for Burberry on Facebook Messenger where customers could purchase Burberry products directly through the social media platform. Burberry also launched its first commercial app for iPhone with exclusive and personalised content. Burberry partnered with Snapchat for its February show by filming rehearsals, backstage activities and the Show itself using Snapchat Spectacles.

At the February Makers House show, Burberry built a portrait studio, a set inspired by Henry Moore's studio. Guests were invited to have their portrait taken in the studio and share the image and GIF (animated image) on social media. This generated over four million impressions on social media in one week.

Product and campaign launches
<u>Mr. Burberry – April 2016</u>
The Mr. Burberry fragrance campaign launched in April 2016, including TV, print and a director's cut film shot by Academy Award®-winning director, Steve McQueen. The film featured British actor and musician Josh Whitehouse and British model and actress Amber Anderson, with the soundtrack 'I Won't Complain' created by British singer-songwriter and Mercury Music prize-winner Benjamin Clementine. Customers were able to personalise their Mr. Burberry bottle with a monogramming service

* According to research by Morar Consulting.

available at Burberry.com and selected Burberry and wholesale stores. Users were also able to monogram their own virtual Mr. Burberry bottle using interactive advertising and to share it on Facebook, Twitter, Pinterest and Instagram.

As part of the Mr. Burberry launch, Burberry became the first luxury brand to have a dedicated experience in the Discover section of Snapchat. The Mr. Burberry Discover channel offered access to a wealth of style and fragrance content, including tailoring and grooming tips.

My Burberry Black – August 2016
Burberry launched My Burberry Black, a new fragrance for women, with the brand's first Snapchat Lens and a campaign starring British actress Lily James. Customers were able to watch the campaign unfold as Lily took over Burberry's Snapchat channel. A unique My Burberry Black Lens was created to immerse users into the aesthetic of the campaign. The takeover culminated with the reveal of the TV campaign across multiple platforms globally, including on large outdoor screens in Piccadilly, London.

Artisans Campaign – September 2016
In its September print campaign, Burberry featured the artisans who create key Burberry products, giving the customers the chance to connect with, and understand the craftsmanship behind these products.

Kris Wu Edit – November 2016
Burberry revealed the 'Kris Wu Edit', a collaboration with the Chinese musician, actor and the brand's new ambassador. The campaign, which ran in China, featured Kris wearing five curated Burberry looks. Burberry's work with Kris Wu continued at the February 2017 runway show where he featured in exclusive show content filmed for the Asian Burberry social media platforms.

Festive – November 2016
Burberry launched its Festive campaign with the film 'The Tale of Thomas Burberry' directed by Academy Award®-winning director, Asif Kapadia. The film celebrated the life of Burberry founder, Thomas Burberry and starred Sienna Miller, Lily James, Domhnall Gleeson and Dominic West. Real-life moments re-enacted in the film included Thomas Burberry's invention of the weatherproof fabric gabardine, dressing the military, and outfitting polar explorers and pilots. The film received 22 million views and was shared on social media platforms including YouTube, Instagram and Twitter. The campaign was complemented by Festive events and advertising including Burberry's first-ever festive partnership with Harrods, through which Burberry designed and featured in all street level windows, and a dedicated pop-up space.

The cape reimagined – February 2017
A collection of 78 limited-edition couture capes was presented as part of Burberry's February show finale. Inspired by the scale and form of Moore's elemental sculptures, each design was made using unique constructions and referencing elements from the Burberry archive. Each individually named cape was available for special order, and formed part of a travelling exhibition around the world to cities including Milan, Shanghai, Los Angeles, Dubai, New York, Hong Kong and Tokyo.

Tropical gabardine – February 2017
During the February runway show, Burberry launched tropical gabardine, a lightweight version of the weatherproof fabric found in Burberry's heritage trench coats.

DK88 bag collection – May 2017
Named after the house code for Burberry's signature honey coloured gabardine, the DK88 bag collection is a tribute to the fabric at the heart of Burberry's history. The collection includes top handle, satchel and luggage inspired styles for men and women. Each design is made from Burberry's new trench leather, which is embossed with the pattern of gabardine by using special plates developed to create a unique leather finish. In May 2017, Burberry partnered with Mr. Bags, a Chinese influencer, for the exclusive WeChat shop launch of the DK88 in bright toffee colour.

BUSINESS MODEL

Founded in 1856, Burberry is a global luxury brand with a distinctive British identity.

Since the invention of gabardine by Thomas Burberry more than 130 years ago, Burberry has built a reputation for design, innovation and craftsmanship. Outerwear has been at the core of the business and remains so today – best expressed through the iconic Burberry trench coat.

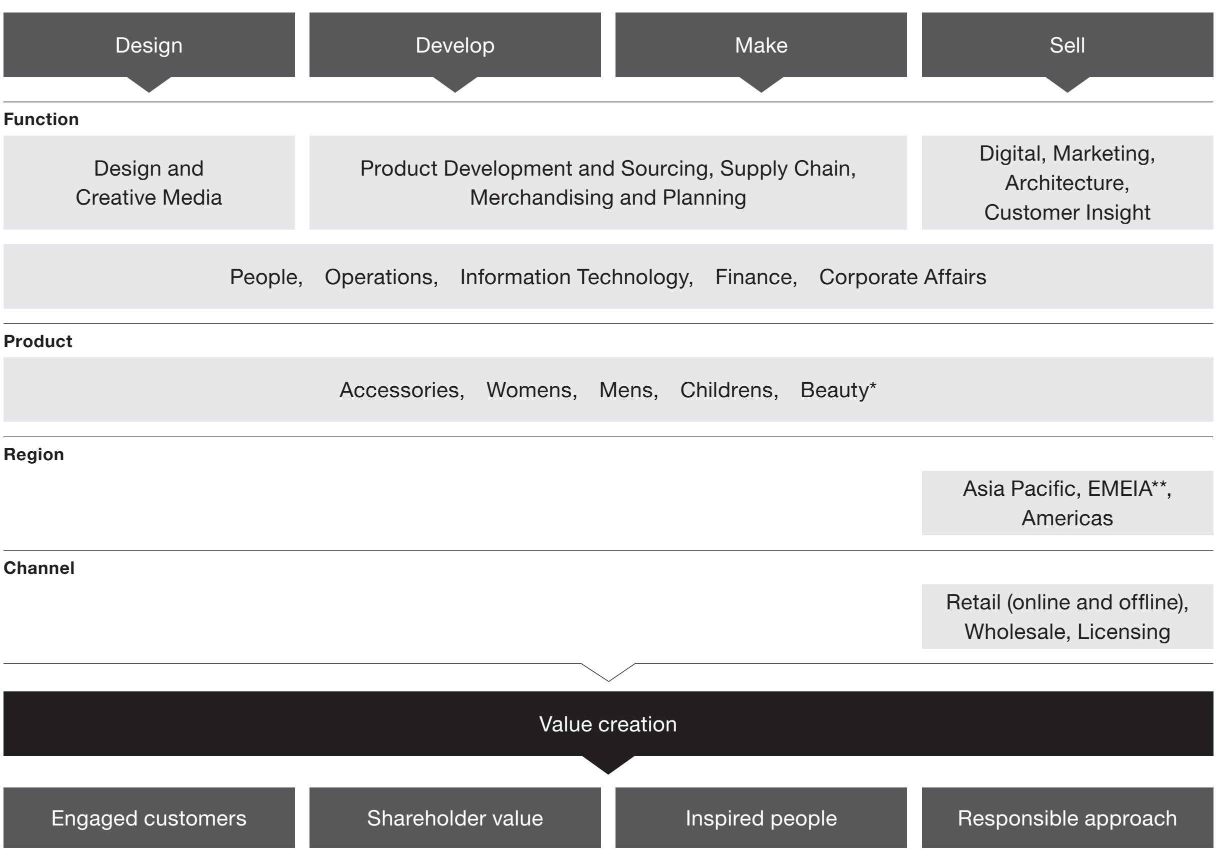
What Burberry does
Burberry designs, develops, makes and sells luxury products under the Burberry brand.

Designs and develops: At Burberry's London headquarters the design studio acts as the creative hub of the Company, with creative talent and activities including product design and development centred there.

Makes: Fabrics, other materials and finished products are sourced and manufactured at Burberry-owned facilities in the UK and through an external supplier network, predominantly located in Europe. This includes the Burberry Mill and Burberry's Castleford manufacturing facility, both of which are located in Yorkshire, England. More information on Burberry's product mix is on page 26.

Sells: Creative and marketing content and programmes to engage consumers with the Burberry brand and its products are developed internally. Burberry products are sold globally through its directly operated store network and online at Burberry.com, as well as through franchisees and third-party retailers, both offline and online. In a few selected areas such as Eyewear and Beauty (from October 2017), Burberry uses the product and distribution expertise of licensing partners. More information on Burberry's channel and regional mix is on pages 24 and 25.

How Burberry operates
Burberry's business is structured by channel, region and product division, supported by corporate functions as set out in the diagram below. The Group prioritises its activities based on its key strategies (as set out on pages 33 to 44), which are executed by a global team of over 10,000 employees.



* Burberry entered into a strategic partnership for its Beauty business to commence from October 2017.
** Europe, Middle East, India and Africa.

How Burberry creates value

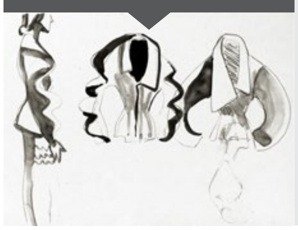
For its customers: By creating beautifully made products, inspiring with its storytelling and shared experiences, delivering impeccable and distinctive services and continually innovating.

For its shareholders: By maximising shareholder value through executing on Burberry's strategies to deliver revenue growth and capital returns. More information on the Group's Capital Allocation Framework is on page 59.

For its people and communities: By ensuring that employees are motivated and inspired and by adopting a responsible approach to everything it does, while investing in the communities in which Burberry operates. More information on Inspired People is on page 44 and Responsibility is on pages 47 to 51.

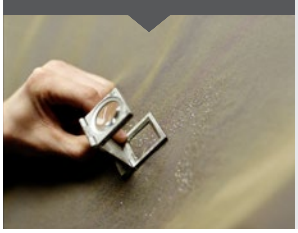
Burberry's business model is best illustrated through the iconic Burberry trench coat – one of the many products Burberry designs, develops, makes and sells.

Design



Burberry is committed to the creation of authentic and distinctive products and continuous innovation in fashion, design and manufacturing. The original trench coat was designed to serve the needs of the military in the early 20th century. Epaulettes displayed an officer's rank, while the belt's metal D-rings were used to attach equipment. Today, all products are created and designed in Burberry's London studios by a team of dedicated designers, with the customer front of mind.

Develop



Gabardine fabric was invented by Thomas Burberry more than 130 years ago. The innovative cotton fabric, which is both breathable and weatherproof, revolutionised rainwear that had been heavy and uncomfortable to wear. Burberry gabardine was used by explorers such as Sir Ernest Shackleton, who wore Burberry gabardine for three Antarctic expeditions. Burberry's Heritage trench coat continues to be made from gabardine and the design reflects the key features of the original.

Burberry continues to innovate with the recent introduction of tropical gabardine, woven for ultra-lightweight protection in mild weather.

Make

Burberry's gabardine and tropical gabardine fabrics are dyed and woven at the Burberry Mill located in Keighley, Yorkshire. The Burberry Mill produces the check lining fabrics used in the Heritage trench coat, as well as fabrics for accessories such as shoes and bags. 23% of the cotton used to create gabardine is sourced from Peru, where Burberry has been sourcing cotton for over 30 years.

The Heritage trench coat is made in Castleford, Yorkshire, by expert craftsmen and women combining traditional techniques with modern technology. The coats are handmade using over 100 individual processes, with the most intricate of these being the crafting of the collar which takes more than 180 stitches to create a fluid curve. It can take up to a year for an individual to learn the sewing technique alone, demonstrating the skill and craftsmanship which goes into creating the iconic trench coat.

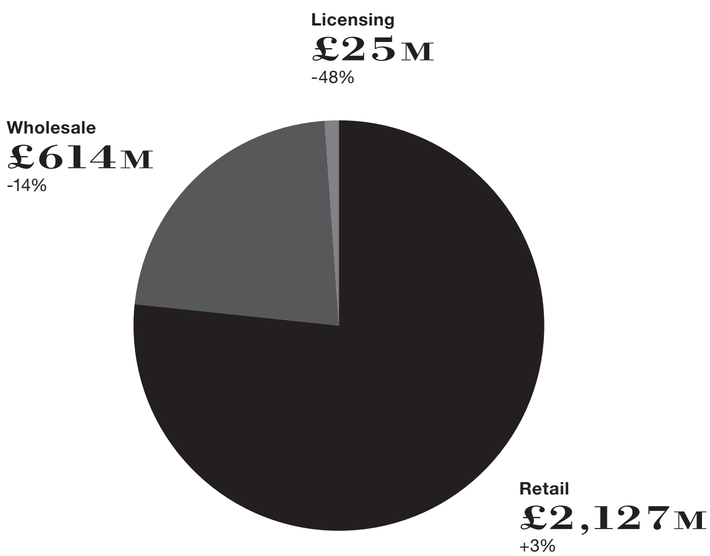
Sell

Once the Heritage trench coat has been finished the 'Burberry Made in England' label is applied and it is ready for customers to purchase globally in-store and online at Burberry.com. Monogramming is also available to enable customers to personalise their Heritage trench coat.

CHANNEL MIX

Burberry sells its products through retail (online and offline) and wholesale channels. For 2016/17, retail accounted for 77% of revenue and wholesale for 22%. Burberry also has licensing agreements (1% of revenue), leveraging the technical expertise of its licence partners.

Revenue by channel
Growth is presented underlying



Retail
The retail channel comprises 77% of our sales compared to 70% three years ago. Includes sales through 209 mainline stores and 200 concessions predominantly located within department stores, digital commerce and 60 outlets.
- 3% underlying growth
- Comparable sales 1% growth
- About 70% of our retail sales are estimated to have involved support from digital technology at some point in the customer journey

Wholesale
Includes sales to department stores, multi-brand speciality accounts, travel retail and franchisees who operate 48 stores. It also includes sales of Beauty products to approximately 80 distributors globally.
- Revenue down 14% underlying
- Almost half of the decline was from Beauty
- Beauty wholesale revenue of £171m, down 20% underlying

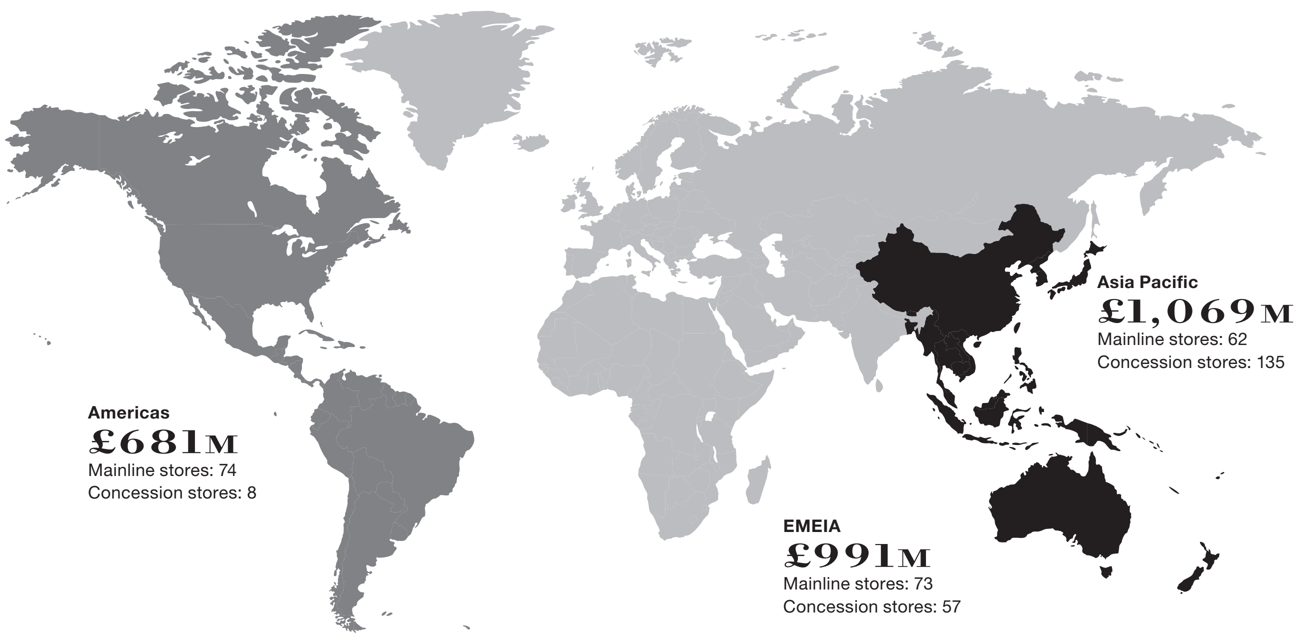
Licensing
Includes income from Burberry's global product licences (eyewear and watches*).
- Revenue was down 48% underlying
- Decline primarily due to the planned expiry of the Japanese licence
- Burberry has entered into a strategic partnership with Coty for its Beauty business to commence from October 2017

* The watches licence will expire in December 2017

REGIONAL MIX

Burberry operates in three regions. For 2016/17, Asia Pacific represented 39% of retail/wholesale revenue, Europe, Middle East, India and Africa (EMEIA) 36% and Americas 25%.

Retail/wholesale revenue by destination



Americas
- Revenue down 11% underlying
- Retail accounted for over 70% of retail/wholesale revenue
- Comparable sales down by a low single-digit percentage year-on-year

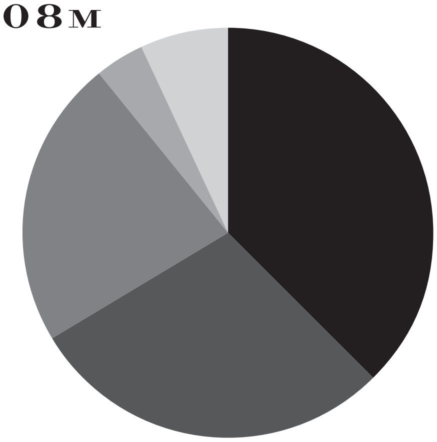
EMEIA
- Revenue up 3% underlying
- Retail accounted for 70% of retail/wholesale revenue
- Comparable sales increased by a high single-digit percentage year-on-year

Asia Pacific
- Revenue unchanged year-on-year
- Retail accounted for almost 90% of retail/wholesale revenue
- Comparable sales were broadly unchanged

PRODUCT MIX

Burberry has a diversified product offer across apparel categories, Accessories and Beauty. For 2016/17, Accessories represented 38% of retail/wholesale revenue, Womens 29%, Mens 22%, Childrens 4% and Beauty 7%.

Retail/wholesale revenue by product
Growth is presented underlying



Accessories
- 2% underlying revenue growth
- Strong growth in womens handbags, an area of strategic focus
- Small leather goods also outperformed

Womens
- Revenue declined by 4% underlying
- Fashion outperformed replenishment as customers responded positively to newness
- Good initial customer response to newly launched tropical gabardine

Mens
- 1% underlying revenue growth
- Introduced an expanded lightweight cashmere trench programme which delivered good early results

Childrens
- 5% underlying revenue growth
- Helped by the transition of European childrenswear to direct operation following licence expiry

Beauty
- Revenue declined by 18% underlying, reflecting brand elevation actions
- Building pillar fragrance of My Burberry with brand extensions, including My Burberry Black in August 2016
- Successful launch of new male fragrance pillar, Mr. Burberry, in April 2016
- Burberry has entered into a strategic partnership with Coty for its Beauty business to commence from October 2017

KEY PERFORMANCE INDICATORS

The Company assesses its performance against a wide range of measures. These key performance indicators (KPIs) help management measure progress against the Company's key strategies.

Financial measures

The Board believes it is important to ensure alignment between executive management's strategic focus and the long-term interests of shareholders. As a result, elements of executive remuneration are based on performance against the following measures: revenue growth, adjusted PBT growth and adjusted retail/wholesale return on invested capital, which are linked to the key strategies as shown below. For details of the Group's key strategies, see pages 33 to 44. For details of the Group's remuneration policy, see pages 87 to 111.

KPI | Performance | Measure

Revenue growth*

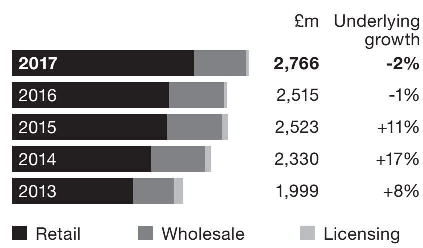
This measures the appeal of the Burberry brand to customers, through all its sales channels.

For more detail on the Company's revenue performance see pages 54 to 58.

Strategic link

All key strategies

Total revenue in FY 2017 declined by 2% underlying. Retail growth of 3% was offset by a decline in wholesale (down 14%) and licensing (down 48%), in part reflecting actions to build and reinforce Burberry's luxury brand positioning.



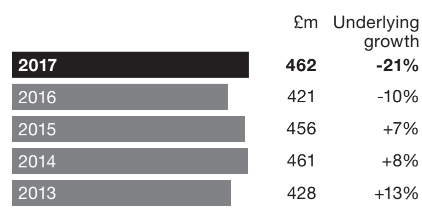
Adjusted PBT growth*#

Adjusted PBT growth is a key profitability measure to assess the underlying performance of the Company.

Strategic link

All key strategies

Adjusted PBT in FY 2017 was down 21% underlying. This reflected lower wholesale revenue, including Beauty, and a reduction in licensing income due to the planned expiry of Japanese licences, partially offset by cost savings.



Adjusted retail/wholesale return on invested capital (ROIC)~

Adjusted retail/wholesale ROIC measures the efficient use of capital to ensure returns on future investments are attractive. It is calculated as the post-tax adjusted operating profit divided by average operating assets over the period for the retail/wholesale segment.

Strategic link

All key strategies

Adjusted retail/wholesale ROIC has increased by 70 basis points to 15.4% predominantly due to growth in reported adjusted PBT of 10%. Operating assets have grown by 2% in the period, predominantly as a result of exchange rate movements.

KPI	Performance	Measure

Comparable sales growth§

This measures the growth in productivity of existing stores. It is calculated as the annual percentage increase in sales from retail stores that have been open for more than 12 months, adjusted for closures and refurbishments and includes all digital revenue.

Strategic link
Product Focus, Productive Space, E-Commerce Leadership

Comparable sales in FY 2017 were up 1%, reflecting improved conversion and retention partially offset by lower traffic. Comparable sales in Asia Pacific were broadly unchanged year-on-year, grew high single-digit percentage in EMEIA and declined a low single-digit percentage in the Americas.

	%
2017	**+1**
2016	-1
2015	+9
2014	+12
2013	+5

Adjusted retail/wholesale operating margin#†

This measures how the business balances operational leverage and disciplined cost control, with thoughtful investment for future growth, building the long-term value of the brand.

Strategic link
Productive Space, E-Commerce Leadership, Operational Excellence

Adjusted retail/wholesale operating margin was 15.9% with 11% growth in retail/wholesale revenue. Unchanged gross margin year-on-year and operating expenses up 10% at reported rates.

	%
2017	**15.9**
2016	15.4
2015	16.3
2014	17.5
2013	17.8

Adjusted diluted EPS growth#‡

Growth in EPS reflects the increase in profitability of the business and is a key valuation metric for Burberry's shareholders.

Strategic link
All key strategies

Adjusted diluted EPS in FY 2017 was 77.4p up 11% at reported rates, reflecting growth in Group profit and lower non-controlling interests, partially offset by a higher tax rate.

	Pence	Reported growth
2017	**77.4**	**+11%**
2016	69.9	-9%
2015	76.9	+2%
2014	75.4	+8%
2013	70.0	+14%

Non-financial measures

Non-financial measures have a useful role alongside financial measures to inform decision-making and to evaluate Group performance. As announced in May 2016, against a backdrop of a challenging external environment for the luxury sector, Burberry has accelerated its productivity and efficiency agenda, particularly looking at its ways of working. As a result, Burberry has identified significant growth opportunities across its existing channels, products and regions. To exploit these opportunities Burberry is focusing on five key strategies, the details of which are set out on pages 33 to 44. Burberry is developing non-financial measures to assess its performance against its key strategies and will aim to disclose non-financial measures in the future. For detail on Burberry's corporate responsibility activities and its progress against 2017 environmental targets, see pages 47 to 51.

Note:
* Underlying.
\# For definition of Adjusted see page 54.
~ For a calculation of Return on Invested Capital see the Five Year Summary on page 178.
† For details of Adjusted retail/wholesale operating margin see page 56.
‡ For details of Adjusted diluted EPS growth see page 54.
§ Comparable sales growth is defined on page 54.

MARKET OVERVIEW

Macro environment

Economic

During the 2016 calendar year, the global economy grew by 3.1%, a deceleration versus 2015 at 3.5%. The year was marked by a slowdown of the US economy, heightened uncertainty in the Eurozone and increased geopolitical concerns in the Middle East and Russia. In addition commodity prices rebounded in 2016, particularly oil, which almost doubled in the year, leading to increased inflation rates in the US and Europe.

Across the major economies, the US grew by 1.6% after a slow start to the year. The recovery of oil prices and the stabilisation of the dollar enabled the economy to accelerate in the second half. In Asia, China's economy grew by 6.7%, a continued deceleration from 6.9% in 2015 and 7.3% in 2014. Increased public spending and credit growth measures exacerbated concerns around a real estate bubble and hastened capital outflows. Hong Kong experienced modest GDP growth of 1.9%, a decline from 2.4% in 2015, impacted by slowing exports, a cooling property market and slowing private consumption. The Japanese economy returned to growth at 1.0% as exports recovered, although private consumption and capital expenditure remained weak. South Korea GDP growth remained stable at 2.7%, in line with 2015 at 2.6%, which was impacted by the MERS outbreak. The Eurozone declined slightly to 1.7% despite strong growth rates in Spain, Germany and Ireland. In the UK, GDP grew by 1.8%, a deceleration from 2.2% in 2015. Across key developing markets, Russia and Brazil exhibited early signs of a recovery from deep recession. Finally, the Middle East economy started to recover, supported by increasing oil prices.

Socio-economic and environmental

The year was marked by a number of socio-economic and environmental events. These included the results of the UK Brexit referendum, the highly polarised US election campaign, the worsening of the migrant crisis in the Eurozone, the increased incidence of cyber attacks and terrorist attacks such as those in Nice, Berlin, Paris and London. In addition, there was the continued impact of the El Niño weather phenomenon, which made 2016 the warmest year on record – the third consecutive year a new global annual temperature record has been set.

Luxury sector*

Markets

This challenging global macro-economic backdrop had a significant impact on the performance of the luxury sector. At constant exchange rates, sector sales growth in 2016 was flat, in line with the 1% growth experienced in 2015, although performance improved significantly in the second half of the year. Underlying growth at constant exchange rates of 4% in China and 1% in Europe was partially offset by declines in the Americas and Japan.

Mainland China** experienced a recovery after several years of stagnation. Repatriation of Chinese consumption commenced as price differentials with other global markets narrowed and the Chinese government introduced initiatives to reduce grey market activities and limit overseas shopping. Despite the recovery in Mainland China, overall luxury consumption by Chinese nationals declined for the first time in recent records.
In Continental Europe, performance was negatively impacted by declining tourist consumption due to terrorist attacks and stricter visa rules for Chinese visitors. These negative dynamics were offset by the recovery of local consumption in most countries and the strong tourist flows to the UK attracted by the devaluation of Sterling. In the Americas, the US market continued to underperform as the strong Dollar resulted in lower tourist spend and local consumption suffered from the uncertainty around the

presidential election. Hong Kong, one of the most profitable luxury markets in the world, continued to decline due to its decreasing popularity as a destination for Chinese tourists. In Japan, the appreciation of the Yen reduced Chinese tourists' consumption and stimulated overseas purchases by Japanese customers. South Korea grew by 13% at constant exchange rates driven by returning Chinese tourism after the 2015 MERS outbreak. Finally, the Middle East continued to decline, driven by poor consumption by both local and tourist customers. Eastern Europe started to recover, particularly with local consumers in Russia.

More widely, luxury customers continue to mature becoming increasingly discerning in their shopping experiences, expecting a high level of service, exciting experiences and innovative and bespoke products.

Channels

Globally, the retail channel continued to outperform wholesale and now accounts for 35% of luxury consumption. This channel grew by 1%, driven by store perimeter expansion which more than offset negative like-for-like performance. Digital commerce remained the fastest-growing channel in the sector and now accounts for 7% of total luxury sales. Key drivers of this growth included strong performance in the Asia region and the sustained momentum of mobile commerce. Travel retail continued to outperform the sector and grew by high single-digits despite being negatively impacted by shifting tourist flows. Finally, the wholesale channel declined by 2% in 2016, mainly driven by the continued deterioration of US department store sales and Asian watch retailers.

Products

For the sector, Beauty was the fastest-growing product category at 4% growth driven by Asia and the Americas. Accessories grew by 1% with positive momentum from shoes and leather goods, particularly at entry price points, men's travel, and usage occasion products such as backpacks. The apparel category declined by 4%, driven by poor performance from luxury brands with a high apparel mix and partially offset by strong growth from luxury denim and down-jackets, and the resurgence of sports-lines and active wear. Finally, hard luxury continued to struggle driven by weak performance in Asia, particularly at high price points.

Outlook

Industry analysts forecast that the personal luxury sector will grow by low to mid single-digit percentage in the medium term at constant exchange rates, driven by a recovery of the US market and the rebound of Chinese global spending. Japan is expected to remain challenging, and the Hong Kong market difficult. Over the longer term, the luxury market should benefit from the growing Chinese middle class and the recovery of developed market consumers, increased concentration of wealth in global destination cities, improving macro and socio-economic trends, strong luxury consumer travel flows, and the continued increasing penetration of digital commerce.

Note:
References are to calendar years, unless otherwise stated.
* Bain & Company and Fondazione Altagamma 2016 Luxury Goods Worldwide Market Report (October 2016).
** Mainland China excludes Hong Kong, Taiwan and Macau.

KEY STRATEGIES

Burberry's ambition is to bring pioneering British creativity and culture to the world by creating beautifully made products, inspiring with its storytelling and shared experiences, delivering impeccable and distinctive services, and continually innovating. Burberry's key strategies and progress made during the year, are set out on the following pages.

INTRODUCTION: DRIVING GROWTH AND PRODUCTIVITY

Burberry has identified significant growth opportunities across its existing channels, products and regions that will build over time, underpinned by efficiency opportunities.

In May 2016, against the backdrop of a challenging external environment for the luxury sector, Burberry outlined its plans to accelerate its productivity and efficiency agenda, particularly its ways of working. Burberry also identified significant future organic revenue growth opportunities that would build over time and a programme of actions to deliver at least £100m of annualised cost savings by FY 2019.

For Burberry, FY 2017 has marked a transition year, with its plans for growth over time and simplification built into five key strategies. Three of these strategies are focused on optimising revenue growth (Product Focus, Productive Space and E-commerce Leadership), enabled by Operational Excellence and Inspired People, to improve efficiency and ensure Burberry has the right capabilities to deliver. These five key strategies are summarised below and listed, together with their relevant objectives and initiatives, in the table opposite.

- Product Focus: Focusing on key product categories by establishing a strategic approach, implementing end-to-end category management, enhancing store assortments and simplifying the product offer.
- Productive Space: Improving end-to-end retail disciplines to drive retail productivity, through a multi-year retail excellence programme focusing on improving service and customer cultivation and investing in in-store operations. Also reviewing Burberry's channel mix to continue to elevate the brand.
- E-commerce Leadership: Leveraging the strong digital capability Burberry has built to drive revenues both on its own platform and through third-party relationships, and to continue sector-leading innovation in this fast-growing channel.
- Operational Excellence: Improving the efficiency and effectiveness of core processes, realising savings through procurement, optimising inventory management and continuing to invest appropriately in information and technology to support Burberry's growth and productivity plan.
- Inspired People: Ensuring that Burberry has highly engaged people with the skills and capabilities needed to deliver its ambitions, with a focus on improved ways of working. This includes a continued commitment to Burberry's unique culture and values, recognising and rewarding talent, as well as leading the industry in responsibility.

Burberry has worked to refine and embed these key strategies into the business, supported by a Transformation Management Office to drive and coordinate the delivery of these strategies, which is overseen by the Chief Operating and Financial Officer and which provides regular updates to the Board. In this first year, Burberry has put the foundations in place for the revenue growth drivers, the benefits of which are expected to build over time, and is encouraged by early results with the following:

- new product outperforming and strength in bags
- improved mainline retail conversion and retention
- growth in digital as Burberry invests in omni-channel customer journeys

Burberry has delivered the planned £20m of cost savings in FY 2017. This is expected to build to c. £50m in FY 2018 and is on track to deliver the target of at least £100m annualised in FY 2019.

The following pages provide a more detailed summary of each of the five key strategies and progress on the initiatives supporting each of these.

Pioneering British Creativity and Culture

Key Strategies

	Product Focus	Productive Space	E-commerce Leadership	Operational Excellence	Inspired People
Objectives	From product breadth to product focus	From new space to productive space	From digital prowess to e-commerce leadership	Focusing on efficiency and investing appropriately	Implementing new ways of working, while committed to unique culture and values
Initiatives	• Build a strategic approach in core categories • Implement end-to-end category management • Enhance store assortments and simplify the product offer	• Elevate service and training • Improve customer cultivation and retention • Invest in in-store operations	• Grow Burberry.com • Leverage third-party relationships • Deliver innovative omni-channel journeys	• Process simplification • Procure effectively • Optimise inventory management • Improve information and technology	• Evolve the operating model and improve ways of working • Evolve the culture and employee engagement • Enhance talent and reward programmes • Ensure a responsible mindset and actions

PRODUCT FOCUS

From product breadth to product focus.

Great product is the foundation of Burberry's growth and productivity goals. Burberry has a broad product offer, with strength in both heritage and fashion across genders and categories. However, Burberry has generally a wider product assortment than its peers. Simplifying the product offer will enable the customer to discover fashion and newness more easily. It will also provide the opportunity to tailor the assortment more effectively for local customer needs.

Key enablers of future growth include the following.

- Build a strategic approach to core product categories: Developing mid to long-term strategies for Burberry's core product categories to simplify the offer, reduce assortments, and to improve the visibility of fashion and newness.
- Implement end-to-end category management: Introducing new ways of working across all product functions to align category performance, enhance accountability and ensure customers remain front of mind during the product development life cycle.
- Enhance store assortments and simplify the product offer: Using a centrally directed buying process to ensure the consistency and relevance of the global product offer, while also simplifying the customer shopping experience and reducing back-of-house complexity.

Progress during the year

<u>Build a strategic approach to core product categories</u>

- A comprehensive strategy is being developed to grow each core product category taking into account target customers, price points and product icons based around key pillars and shapes. The aim is to respond to demand for Burberry's most luxurious products while also introducing more innovation and creativity at opening price points.
- During the year, the initial focus was on evolving Burberry's bag offer around a new pillar and shape strategy. New launches included the DK88 signature collection, the Bridle bag and the Buckle bag family, which resulted from the commercialisation of last year's Patchwork bag. The new shapes have been successful with women's bag sales outperforming other categories during the year.
- Burberry announced its strategic partnership with Coty in April 2017 to accelerate the growth and development of its Beauty business, through an exclusive licensing agreement to take effect from October 2017. Leveraging the strengths of each partner, Burberry will lead on creative elements of the business while benefiting from Coty's industry expertise and global distribution platform.
- In the coming year, Burberry will continue to develop and execute on its product category strategies including building on its tradition in outerwear, heritage in cashmere and developing small leather goods to add innovation at the entry price offering.

<u>Implement end-to-end category management</u>

- Burberry is implementing new ways of working across all product functions including merchandising, planning, design, product development, supply chain and marketing. The aim is to improve collaboration and customer/product focus throughout the product-development life cycle. Initial organisational changes have been implemented in the central teams, the Americas and EMEIA, with Asia to follow. This end-to-end product focused approach will ensure that Burberry delivers inspirational products and brand experiences to its customers.

<u>Enhance store assortments and simplify the product offer</u>

- In November, Burberry successfully implemented its move to one label across its retail network. This has simplified the customer shopping experience as well as reducing back-of-house complexity, with stores merchandised by product rather than label. The one label roll-out was supported by a comprehensive training programme for retail staff and visual merchandising.
- Burberry reduced its product option count by 15–20% over the year. This has simplified its product offering while balancing stronger focus on fashion and newness in-store.
- Burberry has also developed a new store profiling model to support the evolved buying process. This tailors the product offer to reflect the particular store profile. In particular, this model classifies stores in greater detail, using a combination of in-house and local data sources, such as customer demographics and product purchasing behaviours, as well as data such as climate.

PRODUCTIVE SPACE

From new space to productive space.

Burberry's business model has evolved from being a predominantly wholesale to a predominantly retail model. There is a significant opportunity to improve Burberry's end-to-end retail disciplines and to continue to evolve the omni-channel experience.

Alongside this initial emphasis on the retail business, Burberry is sharpening its focus on how it inspires customers across all channels. This includes working closely with its wholesale partners to create a stronger, more carefully curated Burberry offer globally, to drive greater coherence and to support the brand perception.

The initial focus for Productive Space is Burberry's multi-year retail excellence programme. Key areas of focus for the retail excellence programme include the following.

- Elevate service and training: Elevating Burberry's global approach to service, supported by improved sales associate training.
- Improve customer cultivation and retention: Embedding a customer-centric mindset into all behaviours and decisions, supported by customer insight.
- Invest in in-store operations: Improving store operations to a single global standard, to enhance the customer experience and streamline processes.

Progress during the year

Elevate service and training

- Burberry significantly increased its investment in globally consistent training, including enhanced retail sales associate conferences and field training.
- A new service model was rolled out to all retail sales associates in 2016/17, supporting both conversion and repeat business through a standardised and more elevated approach to client engagement.
- Burberry also designed and implemented a client feedback programme based on the net promoter score methodology which measures the quality of customer experience. Initial results from the global launch are already being used to redefine processes and to evolve the approach to store management.

Improve customer cultivation and retention

- Burberry extended its Customer Value Management outreach programme and expanded its Burberry Private Client team by more than 50%. This has enabled the delivery of exceptional service to these important customers and improved sales conversion, with an average transaction value double the global average for the Company.
- A new and enhanced digital selling tool is being developed with a launch date planned for 2017/18.
- Customer insight is a key component of Burberry's Customer Value Management outreach programme. Customer insight uses data, including information on buying behaviours, to define customer segments and enable Burberry to better understand its customers and how best to target them.

Invest in in-store operations

- Burberry commenced an investment programme to standardise and simplify Burberry's global retail operations. A particular focus during 2016/17 was the development of a new point of sale system, with the global rollout planned to continue through to 2018/19.
- Omni-channel customer preferences have been identified and processes developed to cater to these preferences including the rollout of store-based fulfilment, which enables the shipment of products directly from store to customers, starting in 2017.
- Burberry is designing and testing best practice back-and-front-of-house store operations including trialling store staff scheduling software.


MONOGR

E-COMMERCE LEADERSHIP

From digital prowess to e-commerce leadership.

Burberry is recognised as a digital leader in the luxury sector. With an estimated 70% of its retail sales having involved support from digital technology at some point in the customer journey, its ambition is for digital to remain a clear point of differentiation with scope to be more ambitious commercially. This includes enabling seamless customer journeys across digital platforms and using technology to service customers in-store, while ensuring that these online and offline worlds are linked.

Key areas of focus include the following.

- Grow Burberry.com: Continuing to develop the commercial success of Burberry's digital channel through improved customer experiences, enhanced service propositions and new technologies.
- Leverage third-party relationships: Strategically growing Burberry's partnerships to extend its digital presence, while ensuring a consistent brand experience.
- Deliver innovative omni-channel journeys: Ensuring that customers can browse, buy and receive customer support seamlessly across any device or channel, globally.

Progress during the year

<u>Grow Burberry.com</u>

- The key focus for 2016/17 was the development of Burberry.com with a relaunch both on desktop and mobile. The new site offers richer brand and product storytelling experiences and elevated product photography, as well as improved functionality with simplified navigation and increased localised payment methods including Apple Pay. Digital traffic on Burberry.com has increased year-on-year, with conversion improving in both desktop and mobile channels.
- Burberry.com in China was launched both for desktop and mobile, so that it is better aligned for local customer behaviours and preferences, driving an increase in direct-to-consumer sales of around 70%.

<u>Leverage third-party relationships</u>

- Burberry continued to develop best-in-class relationships with retailers online. This included Burberry's collaboration with Barneys to develop unique products for its in-store and digital customers, which helped to elevate the brand's positioning.
- Burberry also continued to innovate in social commerce, leveraging new technologies to collaborate with new partners. This included the opportunity for consumers to buy the Bridle bag on social media platform WeChat after the September show. This was expanded for the February show, with the collection made available to purchase through social media platforms Line, Kakao and Facebook Messenger.

<u>Deliver innovative omni-channel journeys</u>

- Burberry focused on creating an enhanced digital experience around its runway shows and key purchase moments such as Festive. This included the Facebook Messenger experience, which enabled customers to explore the collection in an interactive way via a Facebook Messenger Bot for the September show, the development of the virtual reality experience for the February show, and the launch of new payment options.
- During the second half of the year, Burberry soft-launched a new customer app, providing a more personalised shopping experience by connecting customers more effectively to Burberry stores and associates. The app offers seamless mobile commerce and a platform for interactive storytelling. The app will be rolled out globally in 2017/18.
- As referenced in Productive Space, a major initiative has been the creation of an effective single pool of inventory to allow Burberry.com sales to be fulfilled by inventory held in hubs and stores.

OPERATIONAL EXCELLENCE

Focusing on efficiency and investing appropriately.

Operational Excellence is a multi-year programme and involves re-engineering Burberry's systems and processes to ensure that they are fit for purpose for the Company's next phase of growth.

Key areas of focus include the following.

- Process simplification: Streamlining and simplifying core business processes to ensure a single, global approach.
- Procure effectively: Standardising procurement and unlocking savings.
- Optimise inventory management: Increasing product availability by developing Burberry's omni-channel technology to enable it to satisfy orders more efficiently from a single pool of inventory.
- Improve information and technology: Upgrading Burberry's technology infrastructure to reflect changes in the Company's scale and business model and to support the implementation of the key strategies.

Progress during the year

<u>Process simplification</u>

- Burberry undertook a detailed review of its key processes in finance, HR, IT, procurement and customer services, including benchmarking to peers. This highlighted a significant opportunity to simplify key business processes to increase efficiency and effectiveness, supported by the implementation of new technology solutions.
- In May, Burberry announced plans to establish Burberry Business Services in Leeds. This will bring together shared services covering finance, HR, commercial procurement, and elements of IT and customer services. Savings will be generated from process improvements and lower facility costs.

<u>Procure effectively</u>

- Burberry is working to transform procurement into a simplified and digitally enabled global process from sourcing to settlement, supported by the implementation of SAP Ariba technology. This should generate significant operational efficiencies and reduction in costs.
- Burberry is focusing on improving the effectiveness of its marketing planning and spend, enabled by the use of its in-house customer data analytics and detailed econometric modelling.

<u>Optimise inventory management</u>

- Burberry reviewed its current inventory flow to identify opportunities to streamline steps in the process, and to enable an improved omni-channel customer journey with greater product availability to customers. This will also enable Burberry to satisfy orders more efficiently from a virtual single pool of inventory, online delivery information, quicker delivery times and a facilitated returns process for customers.

<u>Improve information and technology</u>

- Burberry continues to develop its technology landscape to meet the fast-changing needs of the industry and to enable the Company to continue to drive innovation where it matters most. Programmes under way include the following.
  - Product Lifecycle Management Functions: A new digital tool to enable teams to better manage products from conception through to development, manufacture and final inspection. This tool will enable the more timely development of products, improved compliance and enhanced vendor and supplier collaboration.
  - Digital Sales Associate Tool: The development of a new retail staff tool to deliver enhanced customer service across the retail network using Customer Relationship Management software to improve product searches, manage aftersales service and capture customer information.
  - Global broadband: A network rollout to all stores to enable connectivity and to align the service through a single global contract.
- The Company is preparing for further technology releases in 2017 to future-proof its core platforms. These changes will enable business continuity, improved security and the provision of a single global platform fit for purpose for the next phase of Burberry's growth. The design process and the rollout timeline and phasing plans are prioritised based on business needs.

INSPIRED PEOPLE

Implementing new ways of working, while committed to unique culture and values.

Burberry has established the Inspired People strategy to ensure that the business has the right capabilities in place to operate effectively to meet its strategic objectives, and that its people continue to be motivated and inspired to deliver outstanding results for the brand. This will be achieved through effective engagement, changing ways of working, reinforcing culture and behaviours, and continuing to lead the industry in responsibility.

Key areas of focus include the following.

- Evolve operating model and improve ways of working: Redesigning Burberry's operating model to simplify ways of working.
- Evolve culture and employee engagement: Building on Burberry's unique values and culture and continuing to engage in the communities where Burberry operates.
- Enhance talent and reward programmes: Introducing best-in-class talent development and management approaches.
- Ensure a responsible mindset and actions: Focusing on the delivery of the next phase of Burberry's global responsibility plans.

Progress during the year

Evolve operating model and improve ways of working

Burberry is redesigning its operating model across all regions and functions, and has agreed a transition and change management plan for phased implementation. The revised model aims to deliver the following.

- A smaller and more streamlined central organisation.
- Balancing global versus local operations to ensure that the needs of local customers are met while increasing global consistency.
- Simplified ways of working.

The redesigned operating model will provide increased accountability, a greater focus on a standardised global ways of working and better collaboration between regional and central teams.

Evolve culture and employee engagement

A critical priority is to support and nurture Burberry's unique culture, underpinned by strong employee engagement and Burberry's values of Protect, Explore and Inspire. Burberry's distinct culture reflects a global, united mindset; a pioneering, creative spirit; and a responsible approach to everything it does.

A global programme in the second half of the year focused on reigniting these values across the business, and included the following.

- Burberry established a Change Champions group, as well as holding events and providing extensive communications to ensure employees understand the changes taking place within the Company and to obtain their feedback.
- Alongside the existing global employee engagement calendar, retail conferences were held in key markets, sharing new strategies and ways of working.
- Exceptional employee contribution across all areas of the business was celebrated through the annual Burberry Icon Awards, which received more than 18,000 nominations, a record number.
- Craftspeople in the supply chain were celebrated in the September campaign, which showcased the artisans who make Burberry products. Employees continued to be connected to creative brand moments.

Enhance talent and reward programmes

Burberry focused on identifying and meeting the critical capabilities required to deliver the Company's strategies. It also continued to foster a culture of recognition to support high performance and retention of talent through reward and enhanced training and development opportunities. Key achievements include the following.

- The Company's first cohort of Burberry Apprentices graduated during the year, having gained qualifications and experience in roles across retail, internal manufacturing and distribution in the UK.
- A review of employee performance and talent management, resulting in a simplified approach. A successful pilot of this new approach took place, with the full rollout commencing in 2017/18.
- In 2016, Burberry was ranked by LinkedIn as one of the UK's Top 10 attractors for employment and ranked 29th in EMEIA.

Ensure a responsible mindset and actions

Burberry has worked towards completion of its 2012–2017 responsibility strategy, while finalising ambitious plans and goals for the next five years. See Responsibility section on pages 47 to 51 for further details.

RESPONSIBILITY

Led by its core principles of Protect, Explore and Inspire, Burberry continued to promote responsible employment practices and to drive environmental responsibility across its operations and wider supply chain, while investing in the communities where its employees live and work.

RESPONSIBILITY

Ensure responsible mindset and actions.

Burberry has worked towards completion of its 2012–2017 responsibility strategy. Key focus areas and activities over the last year are outlined in this section and a five-year summary report will be available at www.burberryplc.com.

While closing the old strategy, Burberry has also finalised ambitious new goals for the next five years, building on strong foundations, addressing key community, social and environmental challenges and opportunities, and leveraging Burberry's unique assets in the most impactful way. Key areas of focus for the new strategy include the following.

- Fostering resilient communities.
- Creating positive change through sourcing and production.
- Utilising key operational resources to reduce climate change impacts.

More details on Burberry's new responsibility strategy will be available at www.burberryplc.com.

Promoting responsible employment practices

- The Company's trading activities are guided by its Responsible Business Principles, which are underpinned by the United Nations Universal Declaration of Human Rights, the Fundamental Conventions of the International Labour Organisation and the Ethical Trading Initiative Base Code. Targets to promote and build fair and responsible employment practices are integrated into the performance objectives of the Company's sourcing teams as well as at an individual level.
- Burberry's Ethical Trading Programme consists of announced and unannounced supply chain audits, ongoing monitoring and engagement, as well as focused improvement programmes. The Company continued to support factories in its supply chain through a number of engagement activities and new training programmes. Where access to grievance mechanisms is a particular challenge, confidential hotlines run by non-governmental organisations provide over 27,000^ workers across 53^ factories with confidential support.

Number of audits and assessments

477^

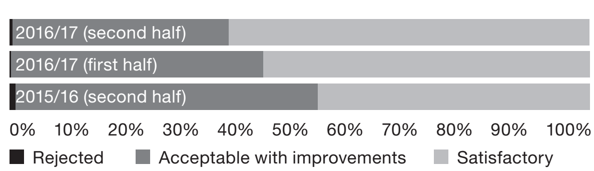
With Burberry's Ethical Programme evolving year-on-year, the Company has focused on how it can make the most meaningful, positive impacts on the lives of people throughout its supply chain, rather than increasing the number of audits. Auditing remains, however, an important tool to help Burberry and its manufacturers identify areas that are in need of improvement.

Number of training and engagement activities

234^

Programmes have been implemented across the supply chain to support factories to build stronger human resource management systems, reduce working hours, sustain and enhance unique knowledge, skills and expertise and provide access to confidential grievance mechanisms.

Ready to Wear, Accessories and Shoe Supply Chain^



^ Information denoted by this symbol has received limited assurance by Ernst & Young LLP.

Results of the FY 2017 audits show an overall positive shift in ethical trading performance by the Company's apparel and non-apparel partners. New manufacturers who did not meet key requirements as outlined in Burberry's Ethical Trading Code of Conduct were not accepted into the Company's supply chain, others were found to meet key requirements but were asked to implement further improvements.

- Burberry completed its biennial Human Rights Impact Assessment and has set a number of mitigation actions, which have been reviewed by Ergon, a specialist consultancy in the field of human rights, and discussed with Oxfam, a globally renowned aid and development charity.
- The Company also published its first statement in line with the UK Modern Slavery Act 2015, detailing the steps Burberry is taking to mitigate the risk of modern slavery occurring in its supply chain and business operations. Bespoke training was delivered to key teams and supply chain partners globally in order to build awareness and strengthen due diligence processes. This statement can be found at www.burberryplc.com.
- Continuing its support for the Living Wage Foundation, Burberry joined the steering group of the Global Living Wage Initiative to discuss harnessing the increasing interest to address in-work poverty across all sectors and multiple geographies, as part of a unified, global approach with multi-stakeholder participation.

Human Rights Statement

The Group recognises its responsibility to respect human rights wherever it operates and conducted a Human Rights Impact Assessment in 2015 to identify the most salient risks in this area. This assessment was reviewed and updated in 2017. The Group believes that potential risks arise in relation to its own workforce, its supply chain and communities, and its customers. Burberry's Human Rights Policy sets out the Company's commitments to respecting these stakeholders' human rights. The Policy is informed by the International Bill of Human Rights and reflects the UN Guiding Principles on Business and Human Rights framework to Protect, Respect and Remedy. Responsibility for the Policy lies with Burberry's Chief Creative and Chief Executive Officer.

Burberry has an established global team who work to promote human rights and good labour practices in the Burberry workplace as well as in the Company's supply chain, as identified and prioritised through Human Rights Impact Assessments. Burberry provides grievance mechanisms for its global employees, as well as confidential hotlines in its supply chain where local labour laws are weak, absent or poorly enforced. Burberry publishes its Modern Slavery Statement in line with the UK Modern Slavery Act. This can be found at www.burberryplc.com.

Investing in our communities

While conducting an in-depth review of its charitable giving activities over the last year, Burberry continued to support communities where its employees live and work through financial grants, employee time and in-kind donations.

- Burberry continued to donate 1% of Group adjusted profits before tax (£4.6 million in FY 2017) to charitable causes around the world, with a significant proportion going to the Burberry Foundation (UK registered charity number 1154468). Other charitable investments included supporting the establishment of a new facility for the Defence and National Rehabilitation Centre, donating to disaster relief efforts and nurturing emerging creative talent through scholarships at the Royal College of Art and BAFTA.
- The first cohort of Burberry Apprentices graduated in September 2016, with 90% of participants completing the programme. The Company expanded the programme in August when a second cohort joined the business, with new opportunities opening in the London headquarters and at the Burberry Mill in Yorkshire.
- The Company expanded its volunteering programme, enabling all its employees worldwide to dedicate up to three working days a year to impactful community projects, seeing volunteering as an opportunity to make a difference while strengthening teams, enhancing workplace skills and building employee engagement and motivation. Activities included career mentoring events, employability workshops, community revitalisation and fundraising projects.
- In-kind donations ranged from one-off gifts of non-trade mark fabric and materials to assist young people on creative courses, to donations of smart business clothing to support over 1,000 people enrolled in employability programmes.

Driving environmental sustainability

Burberry is strongly committed to reducing environmental impacts globally across its supply chain and internal operations.

- Cotton, cashmere and leather are three of the Company's key raw materials, representing around 30% of its greenhouse gas emissions. Burberry has focused on improving the traceability and sourcing of these materials, further deepening partnerships with its supply chain and industry stakeholders. As part of its commitment to more sustainable raw materials, Burberry began procuring cotton through the Better Cotton Initiative. In addition, in Peru, where the Company has been sourcing cotton for over 30 years, a three-year farmers engagement programme has helped to achieve a 14% increase in yields with lower environmental impacts such as a 69% reduction in chemical pesticide use. Burberry seed funded and continues to support the Sustainable Fibre Alliance to help promote sustainable cashmere production in Mongolia. Burberry is committed to encouraging environmental best practice at leather tanneries and collaborating with industry stakeholders to better understand challenges beyond tanneries.

- Burberry increased its efforts to reduce energy and water use in the supply chain, including the implementation of a Natural Resource Defence Council assured impact reduction programme at key mills. To eliminate the release of chemicals that may have an adverse environmental impact, the Company continued to work with its partners to improve chemical management practices in the supply chain and support extensive research into new technology.
- Recognising that waste plays a key role in resource depletion and climate change, Burberry is prioritising the reduction and repurposing of waste. Examples include recycling pre-consumer textile waste into new yarns in Italy, repurposing damaged garment waste into insulation and using textile waste for home furnishings in the UK. Additionally, over 87% of construction waste from major projects globally was recycled.
- Burberry remains committed to reducing environmental impacts from energy consumption at its offices, stores, manufacturing and distribution sites. 53% of the Company's electricity use was generated on site or sourced through green tariffs, an increase from 37% in FY 2016. Over the same period, Burberry distribution centres achieved an absolute energy reduction of 11%, while energy consumption at the Company's London headquarters reduced by 14%.

Progress against targets

Following an independent baseline assessment in 2012, Burberry set itself five-year targets to reduce environmental impacts arising from materials, energy, water, chemicals and waste. Over the years, all targets have been owned and monitored by members of the Senior Leadership Team. The Company's five-year environmental strategy concluded in March 2017 and achievements are outlined in the table below. Whilst some targets have not been fully achieved, key successes and learnings from the last five years have proven invaluable in shaping the Company's new responsibility strategy and goals for 2022, with a focus on addressing the most material issues, evolving internal governance, developing innovative partnerships and demonstrating real impacts on workers, communities and the environment. Further details on the new strategy will be available at www.burberryplc.com.

	2012–2017 Targets	Results
Product Burberry continues to invest in the design and quality of every product and is committed to dramatically reducing the impact of its products.	Raw materials Improve the environmental and social impacts of how we source:	
	• Cotton	Achieved^*
	• Cashmere	Achieved*
	Reduce the environmental impact of:	
	• Leather	Achieved^*
	• PVC	Not achieved
	Chemical use in manufacturing Take steps to eliminate chemicals from use that have a negative impact on the environment, beyond legal limits	Achieved^*
	Packaging 100% of point of sale packaging to be sustainably sourced (where alternatives are available)	Achieved^
Process Burberry is committed to ensuring its future resilience by integrating sustainability decisions across the business and collaborating with suppliers.	Internal manufacturing Reduce the energy use from Burberry's two UK manufacturing sites by 25%**	Not achieved*
	Suppliers Work with key suppliers to assist them in reducing their energy use by up to 20%**	Not achieved^*
	Mills Work with key mills to assist them to reduce their water consumption by up to 20%**	Not achieved^*
	Transport Reduce carbon emissions from the transport of Burberry products by 10%**	Not achieved^
	Distribution centres Reduce energy use in Burberry's five third-party distribution centres by 10%**	Achieved*

	2012–2017 Targets	Results
Property Burberry continues to expand its global footprint in existing and new markets to enable the growth of the business and is committed to minimising the impact of this expansion.	<u>Energy use reduction</u> Reduce Burberry controlled store and office energy usage by up to 15%**	Not achieved^*
	<u>Sustainable consumables</u> 60% of office consumables to be sustainably sourced (where available)	Not achieved
	<u>Renewable energy</u> All Burberry controlled stores and offices to be powered either by on-site or green tariff renewable energy (where available)	Not achieved^*
	<u>Build certifications</u> All new builds will be sustainable build certified LEED (silver), BREEAM (very good) or Greenmark (silver)	Achieved
	<u>Sustainable construction materials</u> 30% of wood by spend is either recycled materials or sourced from certified supply chains	Achieved
	<u>Construction waste recycling</u> 30% of construction waste to be recycled for global major projects	Achieved
	<u>LED lighting</u> 75% of lighting is LED or energy efficient in new concept stores	Achieved

^ Selected information denoted by this symbol has received limited assurance by Ernst & Young LLP.
* Carried forward with increased ambition in new strategy. Other targets have been incorporated into the Company's ways of working.
** When normalised by a relevant productivity factor.

<u>Energy and global greenhouse gas emissions</u>
The disclosures required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 are included below.

(Year to 31 March)

Emissions from:	Current reporting year FY 17	Comparison year FY 16	Comparison year FY 15
Combustion of fuel and operation of facilities (Scope 1) (Kg CO_2e)	2,126,413^	2,141,106	2,336,520
Electricity, heat, steam and cooling purchased for own use (Scope 2) (Kg CO_2e)	37,053,321^	39,314,125	40,451,532
Total emissions (Scope 1 & 2) (Kg CO_2e)	39,179,734^	41,455,231	42,788,052
Electricity, heat, steam and cooling purchased for own use (Scope 2) (Kg CO_2e) MARKET BASED APPROACH)	25,466,295^		
Intensity measurement (Kg CO_2e per £1,000 sales revenue)	14^	16	17
Renewable energy produced on site (KWH)	1,218,096^	1,266,062	1,247,270

Note:
Burberry applies an operational control approach to defining its organisational boundaries. Data is reported for sites where it is considered that Burberry has the ability to influence energy management. Data is not reported for sites where Burberry has a physical presence, but does not influence the energy management for those sites, such as a concession within a department store. Overall, the emissions inventory reported equates to 96% of our sq.ft (net selling space). The Company uses the Greenhouse Gas Protocol (using a location and market-based approach to reporting Scope 2 emissions) to estimate emissions and applies conversion factors from Defra and IEA guidance. All material sources of emissions are reported. Refrigerant gases and fuels consumed in Company vehicles were deemed not material and are not reported. Burberry has updated greenhouse gas data for FY 2015 and FY 2016 to account for improvements in data availability and estimation methods. Further detail is available within Burberry's basis of reporting at www.burberryplc.com.

External assurance of corporate responsibility disclosures
Burberry appointed Ernst & Young LLP to provide limited external assurance over reported performance against selected environmental targets, and selected FY 2017 environmental and ethical trading performance data. The statements and data that formed part of the review are denoted with a ^ on pages 48, 50 and 51. The full independent assurance statement and Burberry's basis of reporting are available at www.burberryplc.com.

External recognition
Burberry was recognised externally for its responsibility performance. Key accolades included:

- Recognised as an industry leader in the 'Textiles, Apparel and Luxury Goods' sector in the 2016 Dow Jones Sustainability Indices. This is the second consecutive year that Burberry has been included in the Index, reflecting the Company's strong commitment to continuously explore more productive and sustainable ways of working.
- Awarded 'Gold Class' distinction in the 'Textiles, Apparel and Luxury Goods' sector in RobecoSAM's 2017 Sustainability Yearbook.
- Achieved top score for Water in CDP's annual assessment, for managing water-related risks in both its own operations and the supply chain.

PERFORMANCE

The following pages set out the highlights of the Group's financial performance during the year to 31 March 2017, the Capital Allocation Framework and the outlook for the coming financial year. The principal risks facing the Group during the year, including the nature and extent of these risks, are also set out in this section.

GROUP FINANCIAL REVIEW

Total revenue
(2016: £2.5bn)

£2.8BN

Down 2% underlying, up 10% at reported FX. Retail growth, offset by declines in wholesale and licensing, in part reflecting actions to elevate the brand

Adjusted profit before tax
(2016: £421m)

£462M

Down 21% underlying, up 10% at reported FX. Lower wholesale income, particularly in the US and Beauty, and reduced licensing income, principally due to planned expiry of Japanese licence was partially offset by cost savings

Profit before tax
(2016: £416m)

£395M

Reported profit before tax after adjusting items

Year end net cash
(2016: £660m)

£809M

£465m free cash flow after £97m of share buyback and £164m of dividends. Net cash of £809m at 31 March 2017 up £149m

Adjusted diluted EPS
(2016: 69.9p)

77.4P

Up 11% with 25.8% effective tax rate (2016: 24.7%) and repurchase of 6.7m shares; Reported diluted EPS down 6%

Full year dividend per share
(2016: 37.0p)

38.9P

Up 5% in line with progressive dividend policy

	Year to 31 March		% change	
£ million	**2017**	**2016**	reported FX	underlying
Revenue	**2,766.0**	**2,514.7**	10	(2)
Cost of sales	**(832.9)**	**(752.0)**	11	
Gross margin	**1,933.1**	**1,762.7**	10	
Operating expenses*	**(1,474.4)**	**(1,344.9)**	10	
Adjusted operating profit	**458.7**	**417.8**	**10**	**(21)**
Net finance credit*	**3.7**	**2.8**	32	
Adjusted profit before taxation	**462.4**	**420.6**	**10**	**(21)**
Adjusting items	**(67.6)**	**(5.0)**		
Profit before taxation	**394.8**	**415.6**	**(5)**	
Taxation	**(107.1)**	**(101.0)**		
Non-controlling interest	**(0.9)**	**(5.1)**		
Attributable profit	**286.8**	**309.5**		
Adjusted EPS (pence)~	**77.4**	**69.9**	**11**	
EPS (pence)~	**64.9**	**69.4**	(6)	
Weighted average number of ordinary shares (millions)~	**442.2**	**446.1**		

Adjusted measures exclude adjusting items. Details of adjusting items are contained in note 6 of the financial statements.
* Excludes adjusting items.
~ EPS is presented on a diluted basis

Definition of Alternative Performance Measures

Adjusted profit before tax and adjusted diluted EPS are defined in note 2 of the financial statements.

Underlying performance is presented as, in the opinion of the Directors, it provides additional understanding of the ongoing performance of the Group. Underlying performance is calculated before adjusting items and removes the effect of changes in exchange rates compared to the prior period. This takes into account both the impact of the movement in exchange rates on the translation of overseas subsidiaries' results and also on foreign currency procurement and sales through the Group's UK supply chain.

Comparable sales is the year-on-year change in sales from stores trading over equivalent time periods and measured at constant foreign exchange rates. It also includes online sales.

Free cash flow is defined as net cash generated from operations, less capital expenditure plus cash inflows from disposal of fixed assets. A reconciliation of Free Cash Flow is set out in the five year summary on page 178.

Lease-adjusted net debt is defined as five times minimum lease payments, adjusted for charges and utilisation of onerous lease provisions, less net cash. This is considered to be a reasonable estimate of operating lease debt which is currently off balance sheet. For details of minimum lease payments see note 5 of the Financial Statements.

Revenue analysis

Revenue by channel

	Year to 31 March		% change	
£ million	**2017**	**2016**	reported FX	underlying
Retail	**2,127.2**	1,837.7	16	3
Wholesale	**613.9**	634.6	(3)	(14)
Licensing	**24.9**	42.4	(41)	(48)
Revenue	**2,766.0**	**2,514.7**	**10**	**(2)**

During FY 2017 Burberry continued to elevate its luxury brand positioning.

- In retail, through service and cultivation initiatives and with the launch of our redesigned website.
- In wholesale, including Beauty, through tightly controlling inventory and distribution despite challenging market conditions.
- And in licensing, reflecting our move to direct luxury retail operation in Japan.

Retail

77% of revenue (2016: 73%); with 209 mainline stores, 200 concessions within department stores, digital commerce and 60 outlets.

- Retail sales up 3% underlying.
- Comparable sales up 1% (H1: flat; H2: up 3%).
- New space contributed the balance of growth.

Asia Pacific

With retail accounting for almost 90% of revenue in the region, Asia Pacific saw broadly unchanged comparable sales with an improved performance in the second half.

- Mainland China delivered high single-digit percentage growth, accelerating through the year to deliver double-digit percentage growth in the fourth quarter.
- Hong Kong improved through the period although remained negative for the full year, impacted by lower footfall partially offset by improved conversion.
- Korea, Burberry's third largest market in Asia, was impacted by both the macro environment and Burberry's own actions to reduce promotional activity.

EMEIA

Retail accounted for 70% of regional revenue. Comparable sales increased by a high single-digit percentage, with an improvement to double-digit percentage growth in the second half.

- Both local customers and tourists contributed to the positive trends.
- The United Kingdom, delivered an exceptional performance.
- Continental Europe saw improvements in most markets through the year, particularly France.
- The Middle East remained difficult, experiencing negative footfall trends.

Americas

With retail accounting for c. 70% of regional revenue, comparable sales reduced by a low single-digit percentage.

- The relative strength of the US dollar drove a strong increase in sales from US customers abroad, while demand at home reduced (both domestic and tourist).
- Spend from US customers globally was stable.
- Strategic actions were taken to protect brand positioning in the highly promotional US environment.

Wholesale

22% of revenue (2016: 25%); generated from sales of apparel and accessories to department stores, multi-brand accounts, 48 franchise stores and travel retail; as well as Beauty to distributors.

Wholesale revenue down 14% underlying in line with guidance, with almost half of the decline from Beauty.

Reflecting the rationalisation of distribution in key markets to improve the brand positioning and distributor destocking, Beauty revenue declined by about 20% underlying (FY 2017: £171m). My Burberry and Mr. Burberry continue to gain share in key markets as emphasis was placed on building pillar fragrances.

Excluding Beauty, underlying wholesale revenue declined, led by a significant decline in Americas in part reflecting Burberry's strategy to reposition the brand in the US.

Licensing

1% of revenue (2016: 2%); of which around half is from Japan, with the balance mainly from global product licences.

Licensing revenue of £25m, down 48% underlying in line with guidance, primarily due to the planned expiry of the Japanese Burberry licence.

Operating profit analysis

Adjusted operating profit

	Year to 31 March		% change	
£ million	**2017**	**2016**	reported FX	underlying
Retail/wholesale	**437.0**	**380.9**	15	(19)
Licensing	**21.7**	**36.9**	(41)	(49)
Adjusted operating profit	**458.7**	**417.8**	**10**	**(21)**
Adjusted operating margin	**16.6%**	**16.6%**		

Adjusted operating profit decreased by 21% underlying, in part reflecting actions taken in Beauty, wholesale and licensing. Delivery of cost savings and tight management of spend was partially offset by investment in growth drivers.

Adjusted retail/wholesale operating profit

	Year to 31 March		% change	
£ million	**2017**	**2016**	reported FX	underlying
Revenue	**2,741.1**	**2,472.3**	11	(2)
Cost of sales	**(832.9)**	**(752.0)**	11	
Gross margin	**1,908.2**	**1,720.3**	11	
Gross margin	**69.6%**	**69.6%**		
Operating expenses	**(1,471.2)**	**(1,339.4)**	10	
Adjusted operating profit	**437.0**	**380.9**	**15**	**(19)**
Operating expenses as % of revenue	**53.7%**	**54.2%**		
Adjusted operating margin	**15.9%**	**15.4%**		

Adjusted retail/wholesale operating profit decreased by 19% underlying, up 15% at reported FX, including a £128m positive impact from exchange rate movements. This reflected:

- A decline in wholesale profits, particularly in Beauty and the US;
- Delivery of £20m of planned savings associated with our cost efficiency programme;
- Ongoing tight discretionary cost management to mitigate underlying cost inflation;
- Investment of £8m to support our growth initiatives; and
- The rebuilding of the performance related pay charge (£37m) as guided, partially offset by lower store impairment and onerous lease charges (£22m) compared to the prior year.

Adjusted licensing operating profit

	Year to 31 March		% change
£ million	**2017**	**2016**	reported FX
Revenue	**24.9**	**42.4**	(41)
Cost of sales	**–**	**–**	–
Gross margin	**24.9**	**42.4**	(41)
Gross margin	**100%**	**100%**	
Operating expenses	**(3.2)**	**(5.5)**	(43)
Adjusted operating profit	**21.7**	**36.9**	**(41)**
Operating margin	**87.1%**	**87.0%**	

Adjusted licensing profit was down 41% at reported FX, including a £3m exchange rate benefit, primarily reflecting the planned expiry of the Japanese Burberry licence.

Adjusting items

	Year to 31 March	
£ million	**2017**	**2016**
Beauty licence intangible charges	**(26.1)**	**(14.9)**
Costs associated with the transfer of Beauty operations	**(14.5)**	**–**
Restructuring costs relating to cost efficiency programme	**(20.8)**	**–**
China put option liability finance (charge)/income	**(1.0)**	**9.9**
BME deferred consideration charges	**(5.2)**	**–**
	(67.6)	**(5.0)**

Beauty licence intangible
In the first half, in addition to the planned amortisation charge of £7.5m, a further £18.6m was recognised to write down the remaining balance of the intangible to nil, due to lower than previously planned Beauty revenue expectations.

Costs associated with the transfer of Beauty operations
Costs of £14.5m associated with the transfer of the Beauty operations to Coty in October 2017. These costs arose in FY 2017 as a result of decisions made during the period.

Restructuring costs
Restructuring costs of £20.8m were incurred, relating to Burberry's cost and efficiency programme, in line with guidance.

China put option liability
The charge of £1.0m reflects the fair value movement of the put option liability in the period up to 1 August 2016 when Burberry exercised its call option (see note 6 of the Financial Statements).

Burberry Middle East (BME) deferred consideration
The £5.2m charge principally reflects foreign exchange rate movements and the discount unwind on the deferred consideration for the BME transaction (see note 6 of the Financial Statements).

Taxation
The tax rate on adjusted profit in FY 2017 was 25.8% (2016: 24.7%), higher than initially guided principally due to a change in the geographic mix of our taxable profits, in addition to a change in the transfer pricing approach by an overseas tax authority.

Tax on adjusting items has been recognised as appropriate. The tax charge of £107m (2016: £101m) resulted in an effective tax rate on reported profit of 27.1% (2016: 24.3%), higher than the effective tax rate due to certain adjusting items which are not subject to tax (see note 6 of the Financial Statements).

Total tax contribution
The Group makes a significant economic contribution to the countries where it operates through taxation, either borne by the Group or collected on behalf of and paid to the relevant tax authorities. In FY 2017, the total taxes borne and collected by the Group in the UK and overseas amounted to £426.2m. In the UK, where the Group is headquartered and has significant operations, Burberry paid business taxes of £89.1m and collected a further £15.9m of taxes on behalf of the UK Exchequer. For further information see www.burberryplc.com.

Cash flow
Cash generated from operating activities in FY 2017 was £689m (2016: £503m). The year-on-year increase reflects the growth in adjusted operating profit and a cash inflow from working capital. Inventory was down 3% underlying, below retail sales growth, reflecting tight management in the second half.

Capital expenditure was below guidance at £104m (2016: £138m) predominantly due to timing of projects and is expected to return to a more normalised level in FY 2018. Tax paid of £132m (2016: £95m) was higher than the prior year reflecting sterling weakness and timing of payments.

Free cash flow of £465m (2016: £274m) and net cash up £149m (after dividends, share buyback and payments for non-controlling interests in China and BME). Net cash at 31 March 2017 of £809m (2016: £660m) and lease-adjusted net debt of £388m (2016: £441m).

Summary outlook
In what remains a rapidly changing environment, Burberry will continue to take actions to elevate the brand, maintain tight discipline on costs and efficient use of capital while executing its strategic agenda. Burberry's focus is on the brand, its products and the execution of the five key strategies to return Burberry to growth.

Disclosure
To simplify its communication, Burberry is modifying its disclosure. With effect from FY 2018 Burberry will:

- Report four times per annum
  - First and Third Quarter Trading Updates reporting on retail
  - Interim and Preliminary Results
- Publish consensus on the Burberry plc website.

Detailed outlook
There is no change to Burberry's expectation for FY 2018 adjusted PBT at constant exchange rates.

Retail: Burberry will focus on productivity from the current store footprint and therefore no material contribution from net new space is expected in FY 2018.

Beauty: Strategic partnership with Coty announced for Beauty from October 2017.

- The impact is expected to be broadly neutral to adjusted PBT in FY 2018 and accretive from FY 2019.
- In the second half of FY 2018, Burberry expects to receive cash payments of £130m for the long-term exclusive global licence and related transfer of the Beauty business, and c. £50m for assets transferring, principally inventory (which is subject to adjustments) totalling c. £180m.
- Burberry currently expects c. £30m of one-off cash costs associated with this agreement.
- From the second half of FY 2018 Beauty will transition from a wholesale business model to licensing. This is reflected in guidance below. Beauty wholesale revenue FY 2017: £171m (H1: £70m, H2: £101m).

Wholesale: Burberry expects total underlying wholesale revenue in the first half of FY 2018 to be down by a mid single-digit percentage (H1 2017: £287m). This reflects the potential business disruption for Beauty. Excluding Beauty, underlying wholesale revenue in H1 2018 is expected to be broadly unchanged year-on-year (H1 2017: £217m).

Licensing: Total underlying licensing revenue for FY 2018 is expected to be up c. 20% year-on-year.

FY 2018 adjusted PBT:

- At 28 April effective rates, the expected impact of year-on-year exchange rate movements on reported adjusted PBT is about £30m adverse. This is an adverse movement of c. £20m since guidance given in April 2017.
- Burberry expects to deliver around £50m of cumulative cost savings and to invest about £20m.

In addition, to deliver the strategic savings, c. £40m of one-off restructuring costs are expected.

Tax rate: The tax rate on adjusted profit for FY 2018 is currently expected to improve by about 80bps to about 25%.

Capital expenditure: Spend of about £140m is planned in FY 2018.

Store portfolio

	Directly operated stores				
	Stores	Concessions	Outlets	Total	Franchise stores
At 31 March 2016	215	214	58	487	62
Additions	13	7	4	24	–
Closures	(19)	(21)	(2)	(42)	(14)
At 31 March 2017	**209**	**200**	**60**	**469**	**48**

Store portfolio by region

	Directly operated stores				
At 31 March 2017	Stores	Concessions	Outlets	Total	Franchise stores
Asia Pacific	62	135	16	213	7
EMEIA	73	57	23	153	41
Americas	74	8	21	103	–
Total	**209**	**200**	**60**	**469**	**48**

Exchange rates
Effective rates for FY 2018 as at 28 April 2017: Euro 1.19, US Dollar 1.29, Chinese Yuan 8.89, Hong Kong Dollar 10.02, Korean Won 1,458.

CAPITAL ALLOCATION FRAMEWORK

Driving shareholder value.

Burberry's new Capital Allocation Framework is used to prioritise the use of cash generated by the Group. The framework addresses the investment needs of the business, regular dividend payments and additional returns to shareholders. The framework also seeks to maintain an appropriate capital structure for the business and a strong balance sheet with solid investment grade metrics.

The diagram below summarises the key priorities.

Reinvest for organic growth

- Store portfolio
  - New space and renovation
- IT
  - Infrastructure and digital
- Supply chain

Progressive dividend policy

- Committed to maintaining or growing the dividend in pence terms year-on-year
- Deliver regular returns to shareholders

Strategic investments

- Investment in structural changes to business activities
- Typically these investments tend to be infrequent, but can be significant, such as the acquisition of China non-controlling interest

Return excess to shareholders

- Review future cash generation, reflecting Burberry's growth, productivity and investment plans, taking into consideration the external environment

Maintain strong balance sheet with solid investment grade credit metrics as indicated by capital structure metrics

- Review the principal risks of the Group and the relevant financial parameters, both historical and projected, including net cash, lease-adjusted net debt and measures covering balance sheet strength and fixed charge cover.
- These risks are considered by the Board when assessing the viability of the Group, as set out on page 61.

Capital structure metrics	**FY 2017**	FY 2016
Net cash	**£809m**	£660m
Lease-adjusted net debt	**(£388m)**	(£441m)

Burberry has applied its capital allocation framework during the year ended 31 March 2017, as follows.

- Reinvested £104m into the business as capital expenditure.
- Increased its full year dividend by 5% to 38.9p.
- Invested £69m in the strategic acquisition of non-controlling interests in China and the Middle East.
- From July 2016 to April 2017 £100m of an announced £150m was returned to shareholders via a share buyback programme. In addition, a further share buyback of £300m has been announced for completion in FY 2018, in addition to £50m already announced. This is inclusive of the distribution of the Coty upfront sum.

PRINCIPAL RISKS

Effective management of risk is essential to the execution of the Group's strategies, the achievement of sustainable shareholder value, the protection of the brand and ensuring good governance.

The Board is responsible for the Group's risk management and internal controls system and reviewing its effectiveness. The system is designed to identify and manage, rather than eliminate, the risk of failure to achieve the Group's strategic objectives and to provide reasonable but not absolute assurance against material misstatement or loss. More information on the Group's internal control and risk management systems can be found in the Corporate Governance Report on pages 70 to 86.

The Board has overall responsibility for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives (its risk appetite), and for ensuring that risks are managed effectively. The Board has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the Group's systems of internal control and risk management methodology.

As part of this review, the Audit Committee considers the principal risks facing the Group and the nature and extent of these risks. The Group Risk function facilitates a risk assessment process in each key business area and global support function to review the significant risks facing Group operations and the controls and actions in place to mitigate these. The detailed assessments are then consolidated to provide input into the overall Group risk assessment.

The Board and the executive management team use a combination of different and complementary skills to assess the risks facing the business. In determining its risk appetite the Board considers a variety of information when reviewing the Group operations and in approving key matters reserved for its decision. This information includes:

- updates provided by senior management on key strategic and operational matters;
- discussion and approval by the Board of the Group's three-year strategic plan, budget and viability statement (see page 61);
- information provided for the purposes of deciding whether to approve those significant matters which have been reserved for the Board;
- Group risk assessments facilitated by the Group Risk function and the reports of the internal and external auditors; and
- risk appetite guidelines relating to the Group's principal risks.

The risks set out in the table on the following pages represent the principal risks and uncertainties which may adversely impact the performance of the Group and the execution of its key strategies. The Group's key strategies are set out on pages 33 to 44.

Within the table is a summary of how each risk is defined, its context, potential impact, mitigating activities and the Group's assessment of the change in risk during 2016/17. This assessment is based on the external environment in which the Group operates, its business operations and the impact of the Group's internal controls on the severity of the risk in the period. The Group's risk exposure is continually reviewed by senior management and is therefore subject to change as a result of internal and external factors, future events or otherwise. It is not possible for the Group to implement controls to respond to all the risks it may face and the steps the Group has taken to address certain risks (including those listed) may not manage these risks effectively.

The principal risks are not listed in order of significance and each of the risks should be considered independently. If more than one of the events contemplated by the risks set out occurs, it is possible that the combined overall impact of such events may be compounded. The Group Risk function examines these risks for correlation impacts. Other factors could also adversely affect Group performance and so the risks set out should not be considered to be a complete set of all potential risks and uncertainties the Group may face.

The key changes in the principal risks during the year include the following.

- Following the outcome of the UK referendum to leave the EU and the invoking of Article 50, uncertainties remain about the impact of Brexit on the Group's operations and financial performance. The Group has considered the possible consequences that Brexit could have upon the business and has concluded that it does not raise any new principal risks. However, it does have the potential to impact a number of the Group's existing risks at an individual risk level including: outlook for the luxury sector remains uncertain, volatility of exchange rates, loss of key management personnel and regulatory requirements. The Group has established a Brexit Steering Committee to monitor developments arising from Brexit, headed by the Chief People and Corporate Affairs Officer, who will provide regular updates on this to the Board.
- The previous risk relating to the failure to realign the organisational resource capability to deliver the productivity and efficiency agenda announced last May, has been reclassified as one relating more generally to the loss of key management personnel or the inability to attract and retain key employees. This shift reflects that the implementation of the Group's growth and productivity and efficiency programme is well under way.

Longer-term viability statement
During the year, the Directors have carried out a robust assessment of the principal risks of the Group, set out on pages 62 to 65. The Directors have also identified those risks which they consider could potentially impact the viability of the Group.

The Directors have assessed the potential impact of these risks materialising and the impact on the ability of the Group to continue in operation and to meet its obligations. This assessment consisted of an analysis of the potential impact of the net risks on the Group's viability and, where appropriate, stress testing.

The Group's annual corporate planning process consists of the preparation of a three-year strategic plan, reforecasting of the current year business performance during the year and preparation of a more detailed budget for the following year. The Directors have reviewed the plans, forecasts and budget including assumptions regarding the Group's products and markets, expenditure commitments and expected cash flows.

The stress testing consisted of estimating the impact of revenue sensitivities on the profitability and cash generation in the Group's strategic plan, together with reverse stress testing to identify the theoretical revenue sensitivity that the Group could absorb, without impacting its viability. The sensitivities took account of the likely mitigating actions available to the Directors through adjustments to the operating plan in the normal course of business, together with resulting impacts on returns to shareholders.

The period considered for the assessment was three years to March 2020. This period was considered appropriate by the Directors on the basis of the following.

- It is the period for which the Group's strategic plan was prepared.
- It is sufficient to encompass the completion of the almost all currently approved capital expenditure projects.
- As the Group has no contracted income, and as most current projects will be completed in the three-year period, any projections beyond March 2020 will only vary as a result of estimates of sales growth and cost growth assumptions.

In assessing the viability of the Group, the Directors have also taken into account the Group's current liquidity and available facilities (set out in note 21 of the Financial Statements) and financial risk management objectives and hedging activities (set out in note 25).

On the basis of this assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to March 2020.

In making this statement, the Directors have made the key assumption that there is no material long-term impairment to the Burberry brand.

Risk	Business impact	Mitigation
A major breach in cyber systems or information security could adversely impact the Group's business operations and/ or result in a major data loss adversely impacting the Group's reputation. Change in level of risk No material change	The Group's customer and employee data, Burberry.com business, digital strategy and operations mean that it is critical that the Group's technology is robust, its systems are secure and data protected. Sensitive data faces the threat of misappropriation and a breach of cyber-security on key business systems could also affect business operations. Strategic link All key strategies	Information systems and cyber-security continued to receive substantial Audit Committee focus during the year to ensure that the Group's response to this developing risk is appropriate. Investment in the ongoing cyber-security programme continued and a four-year security strategy was reviewed and approved by the Audit Committee. A new Information and IT security team was put in place. Ongoing activities to detect and investigate threats and incidents including with the support of key technology partners and suppliers. Evaluation and testing of cyber-security using specialist third parties and of the crisis management and wider business continuity plans.
The outlook for the luxury sector remains uncertain. Change in level of risk No material change	Changes and events in the external market or environment could impact the Group's performance and the delivery of its strategies. These changes or events could include: (i) a sustained economic slowdown, which adversely impacts the Group's customers, suppliers and operations; (ii) a change in consumer behaviour or other events, which adversely impact consumer demand particularly in relation to key consumer groups who make a significant contribution to Group revenues; and (iii) increasing global economic uncertainty including matters such as Brexit which could have an impact on economic growth and adversely impact the Group or give rise to additional costs relating to movements of inventory within the supply chain. Strategic link Productive Space, E-Commerce Leadership	With the outlook for demand in the luxury sector remaining uncertain and underlying cost pressures persisting for the sector, in May 2016 the Group outlined its productivity and efficiency agenda and its plans to optimise future organic revenue growth opportunities. The global reach of the Group helps to mitigate local economic and geopolitical risks. The Group focuses on engaging consumers through the Brand and realising its opportunities among key consumer groups and geographic markets. The Group's financial reporting and review processes are designed to highlight any change in ongoing sales performance to enable action planning to address underperformance. Counterparty credit checks are in place for all key customers and suppliers and flexible payment terms are used to assist suppliers as required. Group Treasury monitors the credit ratings of financial institutions which hold Group deposits to enable the Group to take appropriate action should there be a downgrade in their credit ratings. The Group would seek to mitigate any adverse cost impacts arising as a result of Brexit, through optimisation of operations within the supply chain.
Inability of the organisation to successfully deliver the growth and productivity and efficiency programme without compromising business as usual. Change in level of risk Decreased risk	The growth and productivity and efficiency programme is being implemented to optimise future organic revenue growth opportunities and to deliver productivity and efficiencies, particularly through ways of working. The failure to effectively manage this programme could adversely impact the delivery of the Group's strategies, the anticipated productivity and efficiency improvements, and its operations and return on investments. The Group's systems of internal control will need to be maintained. Strategic link All key strategies	The Senior Leadership Team is accountable for the conduct of this programme and the delivery of the outcomes in accordance with the plan approved by the Board. A Transformation Management Office ('TMO') has been established to drive and coordinate delivery and to monitor risks of each of the major programmes underway. Progress of the delivery of the programme is subject to regular review by the Board. The Board also approves the Group's strategies, its three-year plan and annual budget.

Risk	Business impact	Mitigation
Loss of key management or the inability to attract and retain key employees. Change in level of risk Amended risk	Insufficient capability and capacity in senior management and insufficient employees with the right skills may limit the Group's ability to execute the Group's strategies and change programme. The period of change may result in a loss of key individuals or the inability to recruit and retain individuals with the relevant talent and experience, which could disrupt the operation of the business and adversely impact the Group's ability to deliver its strategies. Brexit may have an adverse impact on the Group's UK workforce which includes EU nationals, including within senior management. Strategic link All key strategies	The Inspired People strategy has been established to oversee the Group's organisational capability requirements, culture and engagement, equality and wellbeing, talent development, training and reward and recognition. The Board and Audit Committee regularly review key talent and resource risks. There is a programme of clear and open engagement with employees to promote an environment of trust and honesty. Competitive incentive arrangements currently exist, with specific initiatives in place designed to retain key individuals. Recruitment is ongoing and talent review and succession planning programmes are in place and are regularly reviewed and updated. The Group would seek to mitigate any adverse impacts on its UK workforce arising from Brexit. The Group's Brexit Steering Committee will keep this under review.
Sustained breaches of the Group's intellectual property rights and unauthorised sale of Burberry products. Change in level of risk No material change	Trade marks and other intellectual property ('IP') rights are fundamentally important to the Group's reputation, success and competitive position. Unauthorised use of these, as well as the unauthorised sale of Burberry products and distribution of counterfeit products, damages the Burberry brand image and profits. Strategic link Product Focus, Productive Space, E-Commerce Leadership	The Group's global Brand Protection team is responsible for the Group's brand protection efforts globally, including in the digital environment. Where infringements are identified these are addressed through a mixture of criminal and civil legal action and negotiated settlement. IP rights are driven largely by national laws which afford varying degrees of protection and enforcement priorities depending on the country.
Chinese consumer spending patterns significantly change adversely impacting the Group's revenues. Change in level of risk No material change	A significant proportion of the Group's sales are to Chinese consumers globally. Consequently, any change to Chinese consumer tastes or the economic, regulatory, social and/or political environment in China could adversely impact this consumer group's disposable income, confidence and travel, which could impact the Group's revenue and profits. Strategic link Product Focus, Productive Space, E-Commerce Leadership, Operational Excellence	The global reach of the Group helps to mitigate reliance on particular consumers. In addition, the Group continues to focus on engaging with the Chinese luxury consumer, both in China and while travelling abroad.
Volatility in foreign exchange rates could have a significant impact on the Group's reported results. Change in level of risk No material change	The Group operates on a global basis and earns revenues, incurs costs and makes investments in a number of currencies. The Group's financial results are reported in Sterling. The majority of reported revenues are earned in non-Sterling currencies, with a significant proportion of costs in Sterling. Therefore, changes in exchange rates which are driven by a number of factors, such as global economic trends, Brexit or other developments, can impact the Group's revenues, margins, profits and cash flows. Strategic link All key strategies	The Group seeks to hedge anticipated foreign currency transactional cash flows using financial instruments. These are mainly in the Group's centralised supply chain and wholesale and Beauty businesses. The Group does not hedge intra-group foreign currency transactions at present. The Group monitors the desirability of hedging the net assets of non-Sterling subsidiaries when translated into Sterling for reporting purposes, but the Group has not entered into any material transactions for this purpose in the current or previous year.

Risk	Business impact	Mitigation
Major incidents such as natural catastrophes, global pandemics or terrorist attacks affecting one or more of the Group's key locations could significantly impact its operations. Change in level of risk Decreased risk	A major incident at a key location could significantly impact business operations, with the impact clearly varying depending on the location and its nature. The impact of the loss of a distribution hub would clearly differ from a global pandemic, but both would impact revenue and profits. Strategic link All key strategies	Business continuity plans are in place to mitigate operational risks, but cannot ensure the uninterrupted operation of the business, particularly in the short term. The regional spread of the Group's key distribution hubs helps to mitigate this risk. A Group incident management framework is in place that addresses the reporting and management of major incidents, and is tested each year using third-party specialists. Tailored plans have been produced for a number of high-impact events. These plans are regularly reviewed and updated.
The Group's operations are subject to a broad spectrum of regulatory requirements in the various jurisdictions in which the Group operates. The pace of change and the consistency of application of legislation can vary significantly across these jurisdictions, particularly in an environment where public sector debt is often high and tax revenues are falling. Change in level of risk No material change	Failure to comply with these requirements could leave the Group open to civil and/or criminal legal challenge, significant penalties and reputational damage. Strategic link All key strategies	The Group monitors and seeks to continuously improve its processes to gain assurance that its licensees, suppliers, franchisees, distributors and agents comply with the Group's contractual terms and conditions, its ethical and business policies and relevant legislation. Specialist teams at corporate and regional level, supported by third-party specialists where required, are responsible for ensuring employees are aware of regulations relevant to their roles. Assurance processes are in place to monitor compliance in a number of key risk areas, with results being reported to the management Risk Committee and Board Audit Committee. The Group's Brexit Steering Committee will keep under review any regulatory requirements arising from Brexit.
Failure by the Group or associated third parties to act in accordance with ethical and environmental standards. Change in level of risk No material change	A failure to act appropriately could result in penalties, adverse press coverage and reputational damage with a resulting impact on revenue and profits. Strategic link All key strategies	A number of initiatives are in place, led by the Corporate Responsibility function. These include the continuing activities set out in the Responsibility section on pages 47 to 51.
Over-reliance on key vendors. Change in level of risk No material change	The Group relies on a number of vendors in key product categories. Failure of these businesses to deliver products or services would have a significant impact on business operations. Strategic link Product Focus, Productive Space, E-Commerce Leadership	The Group continues to evolve its supply chain organisational design to develop its manufacturing base to reduce dependence on key vendors. The Group is extending its business continuity planning framework to key vendors in specific business operations to minimise the impact of an incident affecting those vendors.

Risk	Business impact	Mitigation
The Group's IT systems and operational infrastructure are critical to its operation and the delivery of products, services and market communications to its consumers. Change in level of risk No material change	A failure in these systems could have a significant impact on the Group's operations and reputation. The Group also relies on a small number of vendors of specialist digital and IT services, thereby concentrating the impact of this risk. Strategic link All key strategies	The Group's IT systems and infrastructure continue to receive substantial Audit Committee focus. A number of controls to maintain the integrity and efficiency of the Group's IT systems are in place, including recovery plans which would be implemented in the event of a major failure. These recovery plans are tested on a regular basis. The Group has continued to strengthen its internal Digital and IT teams and actively manages dependency on external specialist services.
The Group operates in a number of emerging markets which are typically more volatile than developed markets, and are subject to changing economic, regulatory, social and political developments that are beyond the Group's control. Infrastructure and services also tend to be less developed. Change in level of risk No material change	Typical potential risks faced in these markets include: seizure of assets or staff, business associate practices that are inconsistent with the Group's ethical standards and the UK regulatory environment, and increased operational costs due to country-specific processes driven by the operating or regulatory environment. Strategic link Productive Space, E-Commerce Leadership, Operational Excellence	The Group uses the services of professional consultants to advise on legal and regulatory issues when entering new markets, to undertake due diligence and to monitor ongoing developments. Where appropriate, the Group seeks to work with franchisees or partners who compensate for its relative lack of experience in a number of these markets.

BOARD AND GOVERNANCE

BOARD OF DIRECTORS

Sir John Peace (68)[†]
Chairman
Sir John Peace became Chairman of the Board in June 2002 and is also Chairman of the Nomination Committee. Previously he was Chairman of Standard Chartered PLC from 2009 to 2016, Chairman of Experian plc from 2006 to 2014, and Group Chief Executive of GUS plc from 2000 to 2006. Sir John is Lord-Lieutenant of Nottinghamshire and was knighted in 2011 for services to business and the voluntary sector.

Christopher Bailey (46)
Chief Creative and Chief Executive Officer
Christopher Bailey became Chief Creative and Chief Executive Officer in May 2014, having previously served as Chief Creative Officer since 2009. Christopher joined as Design Director in May 2001. Prior to working at Burberry, Christopher was the Senior Designer of Womenswear at Gucci in Milan from 1996 to 2001. From 1994 to 1996 he was the Womenswear Designer at Donna Karan.

Christopher will transition into his new role of President and Chief Creative Officer in July 2017.

Julie Brown (55)
Chief Operating and Financial Officer
Julie Brown became Chief Operating and Financial Officer on 18 January 2017. Julie was Chief Financial Officer of Smith & Nephew from 2013 to 2017. Prior to this Julie was with ICI and AstraZeneca plc from 1987, where she held the positions of Interim Group CFO, Vice President Group Finance, VP Corporate Strategy and Regional Vice President Latin America. She is also a non-executive director and Audit Committee Chair of Roche Holding Ltd.

Philip Bowman (64)[†‡]
Senior Independent Director
Philip Bowman was appointed as a non-executive director in June 2002 and is the Senior Independent Director. Philip is Chairman of Majid Al Futtaim Properties LLC and a non-executive director of Ferrovial S.A. Philip was Chief Executive of Smiths Group plc from 2007 to 2015, and previously held the positions of Chief Executive at Scottish Power plc and Chief Executive at Allied Domecq plc. His earlier career included five years as a director of Bass plc. He was previously Chairman of Liberty plc and Coral Eurobet plc and a non-executive director of Scottish & Newcastle plc and British Sky Broadcasting Group plc.

Fabiola Arredondo (50)[†‡]
Non-executive director
Fabiola Arredondo was appointed as a non-executive director in March 2015 and is Chair of the Remuneration Committee. Fabiola is currently the Managing Partner of Siempre Holdings, a private investment firm based in Connecticut, US. She is also a non-executive director of the Campbell Soup Company, NPR, Inc. (National Public Radio), and a former Board trustee and a current member of the National Council of the World Wildlife Fund. Prior to Siempre Holdings, Fabiola held senior operating roles at Yahoo! Inc, the BBC and Bertelsmann AG. She has also previously served as a non-executive director of Experian plc, Rodale Inc., Saks Incorporated, Intelsat Inc., BOC Group plc, Bankinter S.A., and Sesame Workshop.

Ian Carter (55)†‡
Non-executive director
Ian Carter was appointed as a non-executive director in April 2007. He is President of Hilton Worldwide Global Development and Chairman of Del Frisco's Restaurant Group, Inc. Previously, Ian was CEO of Hilton International Company and Executive Vice President of Hilton Hotels Corporation and a director of Hilton Group plc until the acquisition of Hilton International by Hilton Hotels Corporation in February 2006. He previously served as an Officer and President of Black & Decker Corporation between 2001 and 2004.

Jeremy Darroch (54)*†
Non-executive director
Jeremy Darroch was appointed as a non-executive director in February 2014 and is Chairman of the Audit Committee. He is Chief Executive Officer of Sky plc, a position he has held since 2007, having joined the company as Chief Financial Officer in 2004. Prior to Sky, Jeremy was Group Finance Director of DSG International plc (formerly Dixons Group plc) and spent 12 years at Procter & Gamble in a variety of roles in the UK and Europe. Jeremy also previously served as a non-executive director and Chairman of the Audit Committee of Marks and Spencer Group plc.

Stephanie George (60)†‡
Non-executive director
Stephanie George was appointed as a non-executive director in March 2006. She is an adviser to Penske Media Corporation and was recently Vice Chairman of Fairchild Fashion Media Inc (parent of Women's Wear Daily). Stephanie also sits on the Board of Lincoln Center. Previously, Stephanie was Executive Vice President and Chief Marketing Officer at Time Inc. and spent 12 years at Fairchild Publications.

Matthew Key (54)*†
Non-executive director
Matthew Key was appointed as a non-executive director in September 2013. Matthew is a non-executive director of Orbit Showtime Network, a leading multi-platform pay TV network in the Middle East and North Africa, and he recently stepped down from his role on the European Advisory Board of Samsung Group. Previously, Matthew was Chairman and Chief Executive Officer of Telefónica Digital, the global innovation arm of Telefónica. He also previously served as Chairman and CEO of Telefónica Europe plc (formerly O2 plc), Chief Executive Officer and Chief Financial Officer of O2 UK, and Chief Financial Officer for Vodafone UK. Prior to this, he held various financial positions at Kingfisher plc, Coca-Cola & Schweppes Beverages Limited and Grand Metropolitan Plc. Matthew is also Chairman of the Dallaglio Foundation, which is a charity focused on disengaged youth.

Dame Carolyn McCall (55)*†
Non-executive director
Dame Carolyn McCall was appointed as a non-executive director in September 2014. Carolyn is Chief Executive of easyJet plc, a position she has held since July 2010. Prior to easyJet, she held a number of roles at Guardian Media Group plc including Chief Executive from 2006 to 2010. She has also previously served as a non-executive director of Lloyds TSB, Tesco PLC and New Look plc. Carolyn was awarded the OBE for services to women in business in June 2008 and a Damehood for services to the aviation industry in January 2016.

Committee membership key
- * Audit Committee
- † Nomination Committee
- ‡ Remuneration Committee

Carol Fairweather (56)
Chief Financial Officer
Carol Fairweather became Chief Financial Officer in July 2013, having joined Burberry in June 2006. Carol stepped down from the Board on 18 January 2017.

John Smith (59)
Chief Operating Officer
John Smith became Chief Operating Officer in March 2013 having previously been a non-executive director from December 2009. John stepped down from the Board on 31 March 2017.

CORPORATE GOVERNANCE REPORT

Dear Shareholder,

This has been an important year of change for Burberry with the implementation of the programme announced in May 2016, to accelerate our productivity and efficiency agenda, and the change of executive management during the year.

As a Board we have spent a significant amount of time during the year monitoring progress of the implementation of this programme and the impacts on the organisation arising from changes in ways of working. In particular, the Board considered the leadership roles required to maximise Burberry's ability to successfully implement these plans. It was identified that there was a need for a new chief executive with strong luxury retail experience to lead on the commercial, operational and financial elements of the business, who could partner closely with Christopher Bailey, who would continue his leadership of the brand and design elements of the business as President and Chief Creative Officer. These joint leadership roles would share responsibility for strategy and would report jointly to the Chairman.

As Carol Fairweather had signalled her intention to step down as Chief Financial Officer and John Smith as Chief Operating Officer, focus was also on the succession of these roles. To align with the transformation programme, the aim was to seek an individual with a strong financial and commercial background who could combine these roles.

The Board unanimously supported the appointment of Marco Gobbetti as Chief Executive Officer who will join the Board on 5 July 2017, and Julie Brown who joined the Board as Chief Operating and Financial Officer on 18 January 2017. Marco has more than 20 years' experience in the luxury industry and has a proven track record for growing and developing brands through his strong retail and customer-focused strategies. He joined Burberry in January as Executive Chairman, Asia Pacific and Middle East enabling him to familiarise himself with this very important region for the Company and we look forward to him joining the Board in July. Julie has an outstanding track record in the commercial and financial aspects of a global business as well as business transformation and has already made a strong impact since joining in January.

I would like to express my gratitude to both Carol and John for their dedication and service to Burberry over the years and their professionalism and support in facilitating an orderly succession process.

Board succession and composition will continue to remain a priority for the coming year as the Board continues to execute on its succession plan. The aim is to continue to refresh the Board while ensuring stability and continuity, particularly in the context of significant management change. The composition of the Board has evolved significantly over the past few years with the appointment of four new non-executive directors and one longer-serving director stepping down. Further changes are planned over the coming year.

Following a previous review of the Board Committees, changes were implemented during the year. This included the appointment of Jeremy Darroch as Chair of the Audit Committee and Fabiola Arredondo as Chair of the Remuneration Committee, as well as changes to the composition of those Committees.

As Chairman I am responsible for leading and ensuring an effective Board. I am pleased to advise that the Board has operated very effectively during the year. In particular, directors have contributed important insights and constructive challenge in support of the important changes taking place in the organisation and executive management. Our annual Board effectiveness review confirmed that the Board is comprised of high quality non-executive directors with the right mix of skills, experience and the right focus. I would like to thank the Board for its hard work and support during the year.

It is also important to have an open and ongoing dialogue with our shareholders and other stakeholders, particularly during times of change. During the year, a combination of myself, individual non-executive and executive directors and other members of senior management participated in around 166 meetings with investors, including with the Group's 25 largest investors.

Our new Remuneration Policy will be presented to shareholders for their vote at our upcoming AGM, and so our Remuneration Committee Chair Fabiola Arredondo has been meeting with our shareholders and consulting with them on the proposed Policy. You can read more about the Policy in the Directors' Remuneration Report on pages 87 to 111.

I commend this report to all of our shareholders as it details the work of the Board and its Committees during the year along with the assessment of its performance. During the coming year the Board will continue to focus on supporting the change programme and the leadership team as they settle into their new roles.

Sir John Peace
Chairman

Governance

The Board is collectively responsible for promoting Burberry's long-term success, for setting its strategic aims and ensuring a framework of prudent and effective controls.

This report sets out the Board's approach and work during the financial year 2016/17 and, together with the Directors' Remuneration Report on pages 87 to 111, includes details of how the Company has applied and complied with the principles and provisions of the UK Corporate Governance Code issued in September 2014 (the 'Code'). The directors consider that the Company has complied with the provisions of the Code throughout the year.

Our Board

The Board currently consists of ten members – the Chairman, the Chief Creative and Chief Executive Officer, the Chief Operating and Financial Officer and seven independent non-executive directors. A list of directors and their biographies is set out on pages 68 and 69.

The Chairman, Sir John Peace, has led the Board as Chairman since 2002. The Chairman is responsible for leading and managing the business of the Board and ensuring its overall effectiveness and governance. He also ensures the effective communication between the Board, management and with shareholders and the Group's wider stakeholders.

The Chairman works collaboratively with the Chief Creative and Chief Executive Officer, Christopher Bailey, in setting the Board agenda and ensuring that any actions agreed by the Board are effectively implemented.

During the year, the Chairman maintained regular contact and met with the Senior Independent Director and other non-executive directors outside of formal Board meetings. The Chairman also met with the non-executive directors without the executive directors being present.

The Chairman is also responsible to shareholders for the Company's performance and he makes himself available to meet with the Company's main institutional shareholders. The major commitments of the Chairman are detailed in his biography on page 68.

The Senior Independent Director, Philip Bowman, supports the Chairman in his role and leads the non-executive directors in the oversight of the Chairman. The Senior Independent Director is also available as an additional point of contact for shareholders.

The non-executive directors provide strong experience, an independent perspective and constructive challenge and monitor the performance and delivery of the strategy within the risk parameters set by the Board.

The Chief Creative and Chief Executive Officer, Christopher Bailey, is responsible for the management of the business, developing the Group's strategic direction for consideration and approval by the Board and implementing the agreed strategy. The Chief Creative and Chief Executive Officer is assisted by members of his Senior Leadership Team who meet regularly.

On Marco Gobbetti taking up his role as Chief Executive Officer on 5 July 2017, Christopher Bailey will transition to the role of President and Chief Creative Officer at that time, creating a shared leadership framework, with both Marco and Christopher reporting directly to the Chairman. Marco will be responsible for all commercial, operational and financial elements of the business, with Christopher responsible for all elements of brand and design, and shared responsibility for people and strategy.

The Company Secretary, Catherine Sukmonowski, acts as Secretary to the Board and all the Board's Committees and is responsible for supporting the Chairman in the delivery of the corporate governance agenda.

Role of the Board

It is the responsibility of the Board to support management in its strategic aims to enable the Company to continue to perform successfully and sustainably for our shareholders and wider stakeholders.

The Board is ultimately responsible for promoting the long-term success of the Group. The Board leads and provides direction for management by setting strategy and overseeing its implementation by management. The Board is also responsible for oversight of the Group's systems of governance, internal control and risk management.

Specific key decisions and matters have been reserved for approval by the Board. These include decisions on the Group's strategy, the annual budget and operating plans, major capital expenditure and transactions, financial results, the dividend and other capital returns, the approval of the Group's risk appetite and other governance issues. The matters reserved for the Board's decision are available on the Company's website at www.burberryplc.com.

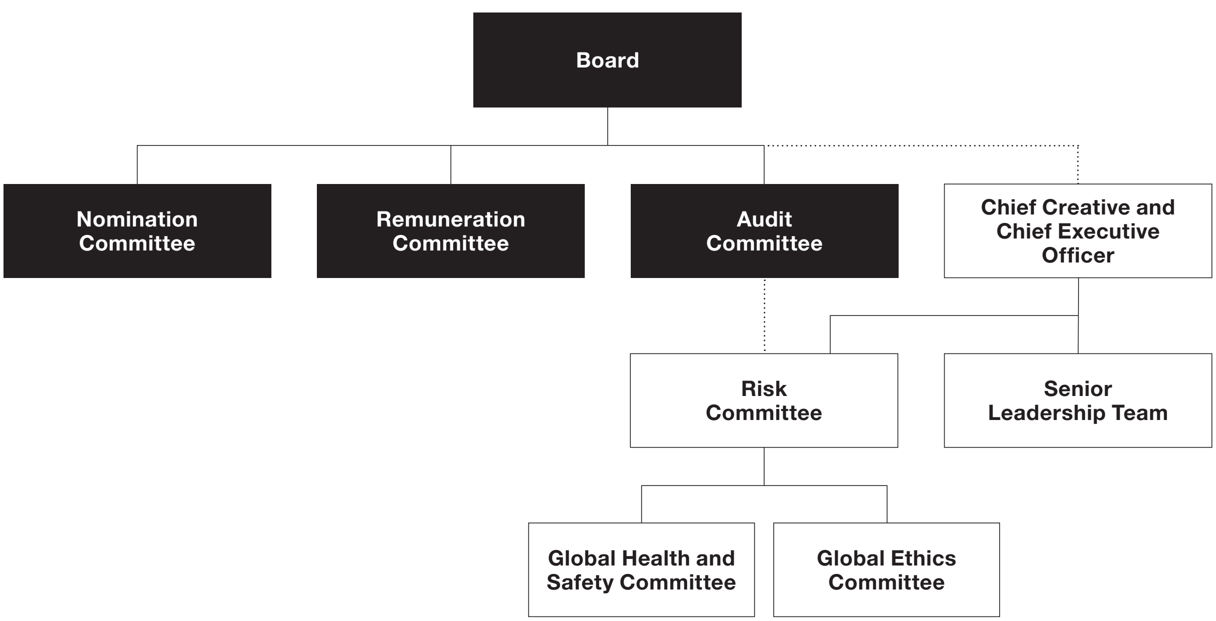
Role of the Board Committees

The Board is supported in its activities by a number of committees including the following principal committees: Audit Committee; Nomination Committee; and Remuneration Committee. The terms of reference of each of the principal committees can be viewed on the Company's website at www.burberryplc.com.

The Committees can engage third-party consultants and independent professional advisers and can call upon other resources of the Group to assist them in discharging their respective responsibilities.

In addition to the relevant committee members and the Company Secretary, external advisers and, on occasion, other directors and members of the senior management team, attend committee meetings, but only at the invitation of the Chair of the relevant Committee.

Set out on pages 81 to 86 are reports from the Audit and Nomination Committees. The report of the Remuneration Committee is set out on pages 87 to 111.



Board effectiveness

The Board has operated very effectively during the year, particularly to support the important changes taking place in the organisation.

Highlights of Board activities during 2016/17

During the financial year the Board held six scheduled meetings, including an in-depth two-day session on strategy, and an additional meeting to discuss the productivity and efficiency programme and ways of working review, which was announced by the Group in May 2016. In connection with this programme the Board spent a significant amount of time during the year on matters relating to the implementation of the programme, as well as on key strategic decisions such as the strategic partnership for the Group's Beauty business. A significant amount of time was also spent, including outside of scheduled meetings, to consider the appointment of the new Chief Executive Officer, and Chief Operating and Financial Officer.

The Board and Committee agendas were shaped to ensure that discussion was focused on the Group's key strategies and monitoring activities, as well as reviews of significant issues arising during the year. The Group's ongoing financial and strategic performance is reviewed at every meeting and the Chief Creative and Chief Executive Officer and the Chief Operating and Financial Officer comment on current trading, the market, products, key brand moments and Group culture.

In addition, to allow for opportunities for the Board to engage with senior management to discuss key elements of the business, individual Board members are offered meetings with senior management and a number of Board dinners were held during the year.

The table below gives the highlights of how the Board and its Committees spent their time during the FY 2017 financial year (but it is not an exhaustive list of topics covered). Further information on the Group's strategic focus during the year is set out in the key strategies section starting on page 33. The more detailed work of the Committees is set out in this report.

Strategy and Business Focus	CC and CEO's regular updates on current trading, the business and operations.
	Annual strategy session (two days).
	Consideration of progress of the Group's productivity and efficiency programme and ways of working review announced May 2016.
	Discussed and approved the strategic partnership with Coty for the Group's Beauty business.
	Received briefings on key areas of the business, the external economic environment and the luxury sector.
	Consideration of the Group's capital structure, balance sheet strategy and returns to shareholders.
	Year end review of the business/sector outlook and consideration of the 2017/18 budget in the context of the three-year plan.
Oversight and Risk	Review of the Interim and Preliminary results announcements, 2016/17 Annual Report and Accounts.
	Review of risk assessments, internal controls framework, business controls and consideration of risk appetite.
	Consideration of the strategic risks and impact on the three-year plan.
	Consideration of the Group's viability statement and the viability assessment and stress testing underpinning the statement.
	Review of audit plan for the year, reappointment of auditors and non-audit fees.
	Review of the simplification of the Group's operating processes including the upgrades of the Group's IT systems.
	Review of IT general controls and cyber-security plans and activities.
	Consideration of various treasury matters and amendments to the Treasury Policy.
	Consideration of Group tax matters including the Group's approach to tax risk.
Governance and Engagement	Approved the appointment of the new Chief Executive Officer and the Chief Operating and Financial Officer.
	Received reports from Board Committees.
	Consideration of the UK Corporate Governance Code and other regulatory requirements for the Annual Report.
	Preparation for, and review of, the Notice of AGM.
	Discussed regular updates from Investor Relations on share price, performance metrics, register activity, and investor and analyst sentiment.
	Engaged with investors throughout the year and responded to retail shareholder questions at the AGM.
	Considered progress in relation to management succession, the Board succession plan, Committee roles and composition.
	Assessed the outcome of the Board/Committee effectiveness review.
	Consideration of director indemnification and Director's and Officer's insurance renewal.
	Consideration of director conflicts of interest.
People, culture and values	CC and CEO's regular updates on key brand moments and culture.
	Consideration of updates on progress with the Inspired People strategy.
	Consideration of regular updates from the management Ethics Committee.
	Consideration of the Group's charitable activities, including the Burberry Foundation.

Evaluating our performance in 2016/17

The Board undertakes a formal review of its performance and that of its Committees each financial year, and is required to conduct an external evaluation once every three years. This year's review of the Board's and Committees' effectiveness was facilitated internally by the Company Secretary. The Board's next external evaluation is due to take place during FY 2018.

This has been an important year of change for the Group with the productivity and efficiency programme and ways of working review announced in May 2016 and the change of executive management during the year. Against this backdrop the Chairman held one-to-one meetings with each of the directors to facilitate a wide-ranging discussion and, in particular, to ascertain directors' reflections on events over the past year and views on the future composition and operation of the Board/Committees, including what areas of future priority the focus should be. The Chairman also discussed directors' roles and performance (see 'Directors' performance' on page 75). The Chairman reported to the Board on the key themes and recommended actions arising from this review.

The overall view from the feedback was that the Board had operated very effectively during the year, particularly to support the important changes taking place in the organisation including executive management. The Board was comprised of high quality non-executive directors with the right mix of skills and experience, and the right focus. During the coming year the Board should ensure that it continues to focus on important strategic matters and continues to track the Group's progress with its key strategies and its productivity and efficiency programme. Progress with the Board's succession plan should continue to be a priority.

Below is a summary of the key themes and recommendations/actions identified from the 2016/17 review and progress against the actions arising from last year's review.

Key themes	2016/17 review		2015/16 review
	Views	**Actions**	**Progress against prior year actions**
Board composition and ongoing NED support	The Board was comprised of high quality non-executive directors, with the right skills and experience and the right focus. Continuing the Board succession plan was a priority. The pace of change should continue to be balanced by the need to ensure stability given the significant management and organisational changes.	The Board succession plan would continue to be a priority with the aim of appointing additional non-executive directors in the coming year, to enable longer-serving members to step down.	*Previous action: Specific areas for further 'deep dives' into the business and competitive landscape were identified.* The in-depth two day session on strategy had focused on specific areas of the business, the luxury sector and the Group's peers. In addition, deep dives were given on the Group's key strategies as part of the Board's consideration and monitoring of progress with the Group's productivity and efficiency programme. *Previous action: The Board should continue to focus on its succession plan.* The Nomination Committee had actively engaged in progressing the Board's succession plan, meeting a number of potential candidates during the year.
Board/ Committee focus	The Board should ensure that it continues to focus on important strategic matters and continues to track the Group's progress with its key strategies and its productivity and efficiency programme.	These specific areas of Board focus would be incorporated into the Board agendas during the coming year.	*Previous action: Future Board focus would continue to be on ensuring that its strategic focus reflected luxury sector dynamics.* See above: Board composition and ongoing NED support, progress against prior year actions.
Board/ Committee effectiveness	The Board/Committees work very well, with the right focus and good meeting dynamics. It is important that the Board is regularly updated on the progress of key items/actions.	The format for regular updates to the Board would be reviewed including how these are woven into future Board agendas.	*Previous action: The approach to Board meeting agendas, papers and timings would be reviewed to ensure that the directors' time together was maximised.* A review of the Board and Audit Committee agenda formats took place during the year which included input from the Group's advisers and a review of other FTSE 100 practice. As a result, the agenda formats were revised to prioritise the discussion on key items and to generally improve the overall effectiveness and efficiency of the meetings. Following a review, the Board implemented changes to the composition of its Committees and rotated the Audit and Remuneration Committee Chairs.

Directors' performance
The Chairman held discussions with each of the directors to discuss their individual performance and to raise any top-of-mind issues they may have including in relation to any matters of Board/Committee effectiveness. This assessment is used as the basis for recommending the re-election of directors by shareholders.

Chairman's performance
The non-executive directors reviewed the Chairman's performance. The feedback was that the Chairman had done an excellent job in leading the Board during this time of significant change for the Company and his leadership provided important stability in the context of executive management changes.

The table below gives details of directors' attendance at Board and Committee meetings during the year ended 31 March 2017.

	Board[1]	Audit	Nomination	Remuneration[2]
Sir John Peace	7/7	–	3/3	–
Christopher Bailey[3]	6/7	–	–	–
Julie Brown[4]	2/2	–	–	–
Fabiola Arredondo[6]	7/7	2/2	3/3	5/5
Philip Bowman[5, 6]	5/7	1/2	3/3	4/5
Ian Carter[6]	7/7	2/2	3/3	5/5
Jeremy Darroch[6]	7/7	3/3	3/3	2/4
Stephanie George[6]	7/7	2/2	3/3	4/5
Matthew Key[6]	6/7	3/3	3/3	3/4
Dame Carolyn McCall[6]	7/7	3/3	3/3	3/4
John Smith	7/7	–	–	–
Carol Fairweather[4]	5/5	–	–	–

1 Board meetings included six scheduled meetings and one additional meeting to consider the productivity and efficiency programme announced in May 2016. Matthew Key and Philip Bowman were unable to attend the additional meeting due to prior commitments.
2 Remuneration Committee meetings included three regular scheduled meetings and two additional meetings, to discuss 2015/16 target setting on the measures under the Group's Executive Share Plan. Philip Bowman, Matthew Key and Dame Carolyn McCall were unable to attend one of the additional meetings, and Jeremy Darroch was unable to attend both of the additional meetings, due to prior commitments.
3 Christopher Bailey was unable to attend one Board meeting due to illness.
4 Julie Brown was appointed to the Board as Chief Operating and Financial Officer on 18 January 2017. Carol Fairweather stepped down as Chief Financial Officer on that date. John Smith stepped down as Chief Operating Officer on that date but continued on as an executive director until 31 March 2017.
5 Philip Bowman was unable to attend one Board and Audit Committee meeting scheduled the same day, due to a prior commitment, and the additional unscheduled Board meeting referred to in note 1 above.
6 On 1 February 2017, Jeremy Darroch, Dame Carolyn McCall and Matthew Key stepped down as members of the Remuneration Committee, and Fabiola Arredondo, Philip Bowman, Ian Carter and Stephanie George stepped down as members of the Audit Committee. See pages 82 and 109 for further information on these Committee changes.

Time allocation
Each of the non-executive directors has a letter of appointment which sets out the terms and conditions of his or her directorship. The Chairman and the non-executive directors are expected to devote such time as is necessary for the proper performance of their duties. This is expected to be approximately 20 days each year for basic duties. The Chairman and Senior Independent Director are expected to spend additional time over and above this to discharge their added responsibilities.

During the financial year the Board held six scheduled meetings including an in-depth two-day session on strategy, and one additional meeting to discuss the productivity and efficiency programme and ways of working review which was announced by the Group in May 2016. The Remuneration Committee held three scheduled meetings and two additional meetings. These additional meetings were to consider 2015/16 target setting for the measures under the Group's Executive Share Plan which had been postponed to enable alignment with the programme, and to deal with matters relating to the executive management changes.

Outside of formal meetings, the non-executive directors spent significant additional time during the year on matters relating to the implementation of the Group's productivity and efficiency programme and to management succession. In addition, individual Board members spent time visiting the Group's business in its key regions and various operating facilities in the UK. The Board considers that it met sufficiently often to enable the directors to discharge their duties effectively.

External directorships
The Board's executive directors are permitted to hold only one non-executive directorship of a FTSE 100 company. Details of the directors' other directorships can be found in their biographies on pages 68 and 69.

Board and Committee composition and succession
In the context of the Board's consideration of the Group's areas of future growth and its productivity and efficiency programme, the non-executive directors spent a considerable amount of time considering the executive leadership roles required to maximise Burberry's ability to successfully implement these plans, with the announcements during the year of the appointments of the new Chief Executive Officer, and Chief Operating and Financial Officer and the transition of Christopher Bailey to President and Chief Creative Officer. Please see the Report from the Nomination Committee on pages 85 to 86.

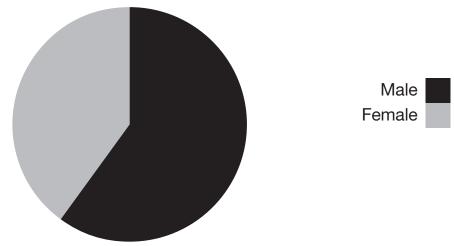
In relation to its non-executive directors, the Board continued to focus on building on its relevant skills and competencies for the future under its succession plan. The aim is to continue to refresh the Board while ensuring stability and continuity particularly in the context of significant management change. The composition of the Board has evolved significantly over the past few years with the appointment of four new non-executive directors, with one longer-serving non-executive director stepping down. The Board plans to continue to execute against its succession plan and it is anticipated that there will be further changes to the Board in the coming year.

The current non-executive directors are drawn from a wide range of industries and backgrounds, including mobile, digital, technology, media, retail, financial services, consumer travel, hotels and hospitality, marketing, accountancy and general management expertise. They have extensive experience of complex organisations with global reach, including experience of the Group's key markets of Europe, the Americas and Asia, reflecting the Group's strategy. Their varied yet relevant experience brings a diversity of perspective and useful insight to Board discussions and important support to the management team. The biographical details of the current directors can be found on pages 68 and 69.

As part of its succession planning the Board also keeps under review the composition of its Committees and the tenure of the Committee Chairs to ensure that these roles are refreshed from time to time. Following a review last year, the Board implemented key changes to its Committees during the year. This included the appointment of Jeremy Darroch as Chair of the Audit Committee and Fabiola Arredondo as Chair of the Remuneration Committee. It also included a variation of Committee membership, evolving away from the past practice of all non-executive directors sitting on all Committees. This change was to enable a fresh perspective and reflects the increased time commitment and focus required from Committee members due to the expansion of the Group over the past few years, and the increasing complexity of the remit of the Committees in terms of regulatory and other requirements.

To ensure that the appropriate linkage remains, regular Committee updates are provided to the Board. In addition, all non-executive directors continue to receive papers relating to all Committee meetings and are invited to attend Committee meetings whenever they wish.

Diversity – split of male/female Board members:



Board succession planning is focused on ensuring the right mix of skills and experience for the Board. All new Board appointments are based on merit, keeping in mind the Board composition principles. These principles are to:

- maintain current core competencies;
- add new competencies which reflect the evolution of the Group's business;
- ensure compatibility with Burberry's culture and values; and
- promote diversity, including in terms of gender.

Please see the Report from the Nomination Committee on pages 85 and 86 for more information on the appointment process.

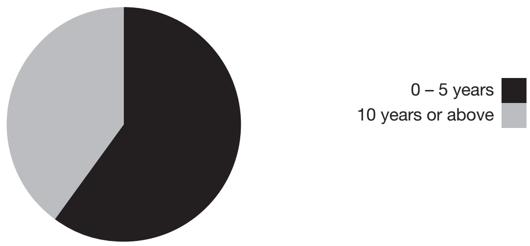
The Board believes in the importance of diverse Board membership, including in relation to gender. The Board is supportive of the Lord Davies Report and the Hampton-Alexander review target for women to represent 33% of boards by 2020. Currently, four out of our ten Board members are female (including our Chief Operating and Financial Officer), comprising 40% of our Board membership. The Board will continue to monitor diversity and take such steps as it considers appropriate to maintain Burberry's position as a meritocratic and diverse business.

The Board believes that it is critical that women are able to succeed at all levels of the organisation. Currently, of a total workforce of approximately 10,000, approximately 70% (7,000) is female and approximately 39% of senior management is female.

More broadly, diversity is at the heart of Group culture which is characterised by a meritocratic and collaborative ethos. At our London headquarters, 58 different nationalities are represented.

The Company continues to focus on evolving its strategies for recruiting and developing key talent within the business in a way which promotes the Group's cultural values and diverse and meritocratic environment. See the Inspired People section on page 44.

Board tenure



The balance of tenure of service of the directors is set out in the Board tenure diagram. At the time of the 2017 Annual General Meeting, Sir John Peace and Philip Bowman will have served on the Board for 15 years, Stephanie George will have been on the Board for 11 years and Ian Carter will have served for ten years. The performance of Philip Bowman, Stephanie George and Ian Carter has been subject to a rigorous review, including with regard to their independence. Their in-depth knowledge of the Group combined with the consistency they provide through their continued service, remains invaluable to ensure a smooth transition of the Board and its Committees. Each of these individuals continues to demonstrate the attributes of an independent non-executive director, including contributing to constructive challenge and debate at meetings, and there was no evidence that their tenure has impacted on their independence.

The Board is satisfied that all of its non-executive directors bring robust independent oversight and continue to remain independent.

Information flow and professional development

The Chairman works closely with the Company Secretary in the planning of the agendas and schedule of Board and Committee meetings, and in ensuring that information is made available to Board members on a timely basis and is of a quality appropriate to enable the Board to effectively discharge its duties.

As set out in the table 'Highlights of Board activities during 2016/17' on page 73, the Board is kept up to date on legal, regulatory, compliance and governance matters through advice and regular papers from the Company Secretary and other advisers.

The Company Secretary assists the Chairman in designing and facilitating an induction programme for new directors and their ongoing training. Each newly appointed director receives a formal and tailored induction programme to enable them to function effectively as quickly as possible, while building a deep understanding of the business and the Group's markets. Each induction typically consists of meetings with both executive and non-executive directors, briefings from senior managers across the Group on key business areas and operations, the luxury market, strategy, the corporate functions, and the Burberry brand and culture. In addition, non-executive directors are provided with opportunities to visit key stores, markets and facilities. This includes visits to the Group's various operating facilities in the UK. The Chairman considers the training needs of individual directors on an ongoing basis.

The Board has direct access to the advice and services of the Company Secretary and the appointment and removal of the Company Secretary is a matter reserved for the Board as a whole. Directors may also obtain, in the furtherance of their duties, independent professional advice, if necessary, at the Group's expense.

Re-election of directors

At the Annual General Meeting in 2016, all continuing directors offered themselves for re-election. Each director was re-elected and no director received less than 91% in favour of the votes cast. At the Annual General Meeting in 2017, all of the directors will again retire and all will offer themselves for re-election or, in the case of the newly appointed directors, for election. As Marco Gobbetti will be joining the Board on 5 July 2017 he will offer himself for election at the Annual General Meeting.

The Board believes that each of the directors standing for re-election or election are effective and, accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2017 Annual General Meeting relating to the re-election or election of the directors.

Managing conflicts of interest

All directors have a duty under the Companies Act 2006 to avoid a situation in which they have, or could have, a direct or indirect conflict of interest or possible conflict of interest with the Company and the Group.

Under the Group's Articles of Association, the Board has the authority to approve situational conflicts of interest and has adopted procedures to manage and, where appropriate, to approve such conflicts. Authorisations granted by the Board are recorded by the Company Secretary in a register and are noted by the Board at its next meeting.

A review of situational conflicts which have been authorised is undertaken by the Board annually. Following the last review, the Board concluded that the conflicts had been appropriately authorised, no circumstances existed which would necessitate that any prior authorisation be revoked or amended, and the authorisation process continued to operate effectively.

Engagement with shareholders
The Board recognises the importance of regular open and constructive dialogue with shareholders and other stakeholders, not just ahead of the Annual General Meeting, but throughout the year.

The Investor Relations team participated in around 450 investor meetings and events during the year. A combination of the Chairman, the Senior Independent Director, Chair of the Remuneration Committee, other individual non-executive directors, executive directors and other members of senior management participated in around 170 of these meetings. This engagement included presentations to institutional shareholders and analysts following the release of the Group's Interim and Full Year results (which are available on the Group's website at www.burberryplc.com), as well as meetings with the Group's 25 largest investors. Topics discussed included (but were not limited to) the executive management changes, luxury sector growth dynamics, the Group's performance and strategy, productivity and efficiency agenda, the Directors' Remuneration Policy and the strategic partnership for the Group's Beauty business.

The Group's Investor Relations and Company Secretariat departments act as the centre for ongoing communication with shareholders, investors and analysts. The Board receives regular updates on the views of the Group's major shareholders and stakeholders from this engagement or direct contacts.

The Group also conducts regular independent investor audits of its major investors through Makinson Cowell, a capital markets advisory firm, to gauge investor perception. The investor audit findings are discussed with the Board.

Evaluation of internal controls
The Board is ultimately responsible for the Group's system of internal controls and risk management and it discharges its duties in this area by:

- determining the nature and extent of the principal risks it is willing to accept in achieving the Group's strategic objectives (the Board's risk appetite); and
- challenging management's implementation of effective systems of risk identification, assessment and mitigation.

The Audit Committee has been delegated the responsibility for reviewing the effectiveness of the Group's internal controls and risk management arrangements. Ongoing review of these controls is provided through internal governance processes and the work of the Group functions is overseen by executive management, particularly the work of Group Risk and Internal Audit and the management Risk Committee. Further assurance is provided by the reviews conducted by the external auditor. Regular reports on these activities are provided to the Audit Committee as reflected in the standing items on the Audit Committee agenda, with further objective reporting provided by the external auditors.

The Board, through the Audit Committee, has conducted a robust assessment of the Group's principal risks and the Group's internal control framework and has considered the effectiveness of the system of internal controls in operation across the Group for the year covered by the Annual Report and Accounts and up to the date of its approval by the Board. This covered the material controls including financial, operational and compliance controls and risk management arrangements. The system of internal controls is designed to manage rather than eliminate the risk of not achieving business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The process followed by the Board, through the Audit Committee, in reviewing regularly the system of internal controls and risk management arrangements accords with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council ('FRC'). It also accords with the provisions of the UK Corporate Governance Code.

Control environment
The Group's business model is based primarily on a central design, supply chain and distribution operation to supply products to global markets via retail (including digital) and wholesale channels. This is reflected in the internal control framework which includes centralised direction, resource allocation, oversight and risk management of the key activities of marketing, inventory management, brand and technology development. The Group has also established procedures for the delegation of authorities to ensure that approval for matters that are considered significant is provided at an appropriate level, either because of their value or their materiality to the Group. In addition, the Group has policies and procedures in place that are designed to support risk management across the Group. These include policies relating to treasury, the conduct of employees and third parties with which the Group conducts business including prohibiting bribery and corruption. These authorities, policies and procedures are kept under regular review.

The Group operates a 'three lines of defence' model which helps to achieve effective risk management and internal control across the organisation. This comprises the following.

- The first line of defence: management owns and manages risk and is also responsible for implementing corrective actions to address process and control deficiencies.
- The second line of defence: to help ensure the first line is properly designed, established and operating appropriately, management has also established various risk management and compliance functions to help build and/or monitor the first line of defence. These include, but are not limited to, functions such as Group Risk, Financial Governance, Health and Safety, Asset and Profit Protection and Business Continuity.
- The third line of defence: Internal Audit provides the Audit Committee and management with independent and objective assurance on the effectiveness of governance, risk management and internal controls including the manner in which the first and second lines of defence achieve risk management and control objectives.

Risk management

The Group has an integrated approach to risk management and internal controls to ensure that its review of risk is used to inform the internal audit process and the design of internal controls.

A detailed three-year strategic plan and annual budget process provides the principal metrics against which the performance of the Group is measured. The strategic plan and budget are agreed with the Board together with defined performance targets and risks. The plan and the principal risks for delivering the strategy also form part of the Board's annual review of Group strategy. The plan, and the assessment of the impact of the principal risks on the plan, forms the basis of the Board's assessment of the viability of the Group as required by the Code. The executive directors also meet with senior management on a regular basis to discuss performance, operational and budget issues to identify any emerging risks to achieving the budget and strategic plan.

The Group Risk and Security Officer, who reports to the Chief Operating and Financial Officer, is responsible for ensuring that the Board's requirements relating to risk management frameworks are met. This includes the design and facilitation of the risk assessment process, the risk appetite framework and providing oversight of key business change processes. As part of the Board's consideration of the principal risks facing the Group, the Group Risk and Security Officer facilitates a risk assessment process in each key business area and global support function to review the principal risks facing its operations and any actions in place to further mitigate the risks. The materiality of the risk is measured based on financial and non-financial criteria, and the probability of the risk arising is also mapped. The detailed assessments are then consolidated to provide input into the Group risk assessment which is discussed and agreed by management at the Risk Committee prior to review by the Board.

The management Risk Committee meets at least three times per year and reports any key findings to the Audit Committee. The Risk Committee evaluates risk through reports made to it by Group Risk, Internal Audit and other assurance teams and management committees. The Committee benefits from cross-functional attendance encompassing senior management of key areas such as IT, finance, legal, brand protection, corporate responsibility, human resources, supply chain, asset and profit protection, information security and health and safety. The Risk Committee is chaired by the Chief Operating and Financial Officer and its members include the Chief People and Corporate Affairs Officer, the General Counsel, the Company Secretary, the Group Risk and Security Officer, the Vice President of Internal Audit and other members of senior management. Key findings of the Risk Committee are reported to the Audit Committee.

Further details on the Group's risk management approach and its management and mitigation of each principal risk together with the Group's viability statement, is set out in the Principal Risks section on pages 60 to 65.

Internal audit
All Internal Audit activity is conducted by the Internal Audit team under the leadership of the Vice President of Internal Audit, who reports to the Chief Operating and Financial Officer but has an independent reporting line to the Chairman of the Audit Committee. Internal Audit adopts a risk-based approach to developing the annual audit plan which involves undertaking a 'mapping' exercise between the principal risks, the potential impact on the achievement of the Group's strategic objectives if those risks were to materialise and the extent to which other sources of assurance exist and can be relied upon to mitigate the principal risks. The output of this, together with a number of other factors, helps to identify areas of focus for the annual audit plan. Internal Audit stays abreast of any changes to the Group's risk profile on an ongoing basis and will reflect this through changes to the audit plan as necessary during the year. Any proposed changes to the plan are discussed with the Chief Operating and Financial Officer and reported to the Audit Committee.

Ongoing visibility of the internal control environment is provided through Internal Audit reports to management and the Audit Committee. These reports are graded to reflect an overall assessment of the control environment under review, the significance of any control weaknesses identified, and also include any remedial actions which have been identified and agreed with management. Reports are also provided on the status of any open actions.

It is noted that from FY 2017/18, to bring enhanced focus on risk and on assurance over the execution of the Group's productivity and efficiency agenda, the structure of the Internal Audit and Risk Management functions were realigned under the leadership of a newly appointed Senior Vice President – Risk Management and Audit.

Financial reporting
Management is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Group has comprehensive planning, budgeting, forecasting and monthly reporting processes in place. A summary of the Group's financial results supported by commentary and performance measures is provided to the Board each month.

In relation to the preparation of the Group financial statements, the controls in place include:

- a centre of expertise responsible for reviewing new developments in reporting requirements and standards to ensure that these are reflected in Group accounting policies; and
- a global finance structure consisting of employees with the appropriate expertise to ensure that Group policies and procedures are correctly applied. Effective management and control of the finance structure is achieved through the finance leadership team, consisting of key finance employees from the regions and London headquarters.

The reporting process is supported by transactional and consolidation finance systems. Reviews of controls are carried out by senior finance management. The results of these reviews are considered by the Board as part of its monitoring of the performance of controls around financial reporting.

The Audit Committee reviews the application of financial reporting standards and any significant accounting judgements made by management. These matters are also discussed with the external auditor.

Fair, balanced and understandable
The Annual Report and Accounts taken as a whole, is required to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Board is satisfied that it has met this obligation. A summary of the directors' responsibilities for the financial statements is set out on page 118. The report of the Auditors on page 119 includes a statement by the auditors concerning their reporting responsibilities.

Report of the Audit Committee
Dear Shareholder,

I am pleased to present the 2016/17 report of the Audit Committee which describes how the Committee has carried out its responsibilities during the year.

The role of the Audit Committee is to monitor the integrity of financial information and to provide assurance to the Board that the Group's internal controls and risk management systems are appropriate and regularly reviewed, together with overseeing the work of the external auditors, approving their remuneration and recommending their appointment. In addition to the disclosure requirements relating to audit committees under the Code, the Committee's Report sets out the areas of significant and particular focus for the Committee over the course of the year.

During the year, the Committee continued to focus on the usual work of the Committee as set out in the table on page 82. Some of the more in-depth areas of focus for the Committee during the year included the following matters.

- Monitoring the Group's progress with its productivity and efficiency programme and in particular, in relation to any risks arising from significant organisational change including in relation to the Group's systems of controls and mitigation of risk and other possible impacts on the business. This will continue to be an area of regular focus of the Committee in the coming year.
- With heightened global technology and information security risks becoming an increasingly significant issue for companies, the Committee continued to spend a significant amount of time on the Group's progress with its information security improvement programme. With risks in this area continuing to evolve, the aim is to ensure that the Group continues to appropriately prioritise its focus and resources towards this critical area of risk.
- The Committee considered the Group's viability statement (as set out on page 61) and the assurance work conducted by management which underpins the statement. It was considered that three years continued to remain an appropriate timeframe on which to base an assessment of the long-term viability of the Group on the basis that it aligns with the regular business planning period. The Committee also reviewed the outcome of the stress testing performed by management and recommended that the directors confirm that they have a reasonable expectation that the Group would be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

The Committee also considered the significant matters set out in the table on page 83. Where these significant matters related to the financial statements for the year, the Committee requested papers from management setting out its approach, the key estimates and judgements applied and management's recommendation. The Committee reviewed and challenged these papers, together with the findings of the external auditors, in order to conclude on the appropriateness of the treatment in the financial statements.

All the members of the Committee are independent non-executive directors. Following a review of the composition of the Board's Committees as mentioned earlier in this Corporate Governance Report, Philip Bowman, Fabiola Arredondo, Ian Carter and Stephanie George stepped down from the Committee on 1 February 2017, with Philip Bowman having previously stepped down as Audit Committee Chairman on 1 August 2016. I would like to thank them for their invaluable work on the Committee and in particular, Philip, for his contribution as Chairman over a number of years.

The Audit Committee confirms that during 2016/17 the Company has complied with the mandatory audit processes and audit committee responsibilities provisions of the Competition and Markets Authority Statutory Audit Services Order 2014, as outlined in this Report which describes the work of the Audit Committee in discharging its responsibilities.

The Committee has a constructive and open relationship with management and the auditors and I thank them on behalf of the Committee for their assistance during the year.

Jeremy Darroch
Chairman, Audit Committee

Audit Committee membership

The following directors served as members of the Committee during the year ending 31 March 2017:

Members	Appointment date
Jeremy Darroch (Chairman)	5 February 2014
Philip Bowman[1]	21 June 2002
Fabiola Arredondo[1]	10 March 2015
Ian Carter[1]	18 May 2007
Stephanie George[1]	19 May 2006
Matthew Key	26 September 2013
Dame Carolyn McCall	1 September 2014

1 Philip Bowman, Fabiola Arredondo, Ian Carter and Stephanie George stepped down from the Committee on 1 February 2017.

The Audit Committee met three times during the year. The attendance record of Committee members is recorded in the table on page 75. In addition to the scheduled meetings the Chairman of the Committee meets separately with representatives of the auditor, the Chief Operating and Financial Officer, the Vice President – Financial Controller and the Vice President – Internal Audit on a regular basis, including prior to each meeting. In addition, he meets with other members of management on an ad hoc basis as required to fulfil his duties.

Regular attendees at Committee meetings include: the Chairman of the Board, the Chief Operating and Financial Officer, the Chief People and Corporate Affairs Officer, the Company Secretary, the Group Risk and Security Officer, the Vice President – Internal Audit, the Senior Vice President – Group Finance, the Vice President – Group Financial Controller, the Senior Vice President – Group Tax, the General Counsel and the representatives of the external auditors.

The Board is satisfied that Jeremy Darroch, as Chairman, has recent and relevant financial experience and that all other Committee members have past employment experience in either finance or accounting roles or broad experience and knowledge of financial reporting and/or international businesses. Details of their experience can be found in their biographies on pages 68 and 69.

Role of the Committee

The main roles and responsibilities of the Audit Committee are set out in written terms of reference, which are available on the Company's website at www.burberryplc.com. The Committee reviews its terms of reference annually. In light of its key responsibilities, the Committee considered the following items of usual business during the financial year as set out in the table below.

Key Committee roles and responsibilities	Usual business conducted during 2016/17
Financial Reports The integrity of the Group's financial statements and formal announcements of the Group's performance.	• Review of the Annual Report and Accounts, annual financial statements, Preliminary announcement, and Interim announcement. On behalf of the Board the consideration of whether the processes and procedures in place ensure that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. • Assessment of the Group's viability and the appropriateness of the going concern basis for reporting. • Consideration of the report of the external auditors on the financial statements for the year, and on the year end audit. • Ensuring compliance with relevant regulations for financial reporting and the Code.
Risks and Internal Controls The Group's internal financial, operational and compliance controls and risk identification and management systems. Review of Group policies for identifying and assessing risks and arrangements for employees to raise concerns (in confidence) about possible improprieties.	• Review of the Group's statement in the Corporate Governance Report on internal controls and risk management. • Review of financial and operational control frameworks. • Review of IT and cyber-security control frameworks. • Review of business risk assessments. • Treasury Policy review and compliance. • Review of the Group's tax strategy. • Risk Committee and Ethics Committee updates including Anti-Bribery and Corruption Policy compliance. • Whistleblowing reports.
Internal Audit Review of the annual internal audit programme and the consideration of findings of any internal investigations and management's response. Review of effectiveness of the internal audit function.	• Consideration of the result of internal audits and management responses to the findings. • Approval of the internal audit plan for 2017/18.
External Auditors Recommending the appointment of external auditors, approving their remuneration and overseeing their work. Policies on the engagement of the external auditors for the supply of non-audit services.	• Review and approval of the proposed audit fee and terms of engagement for the Group's external auditors, PricewaterhouseCoopers LLP ('PwC'), for the 2016/17 financial year. • Review and approval of the audit plan for the year presented by the Group's auditors. Consideration of the key areas of risk and the audit approach applied to these areas, the proposed areas of coverage of the audit, changes of scope and areas of risk in the current year plan and the resource plan. • Review of all non-audit services provided by the Group's auditors during the period and the fees relating to the services provided.

Significant matters

The significant matters considered by the Committee during the year are set out below.

Significant matters for the year ended 31 March 2017	How the Audit Committee addressed these matters
Acquisition of non-controlling interests in the Group's businesses in China and the Middle East.	During the year the Group exercised its call option to acquire the non-controlling interest in its business in China. The Group also acquired the non-controlling interest in its business in the Middle East. The Committee reviewed management's proposals on how these transactions should be accounted for, including the derecognition of the put option liability, the treatment of deferred consideration arising from the acquisition of the Middle East non-controlling interest and the disclosure of these transactions in the financial statements. Accounting for these acquisitions is set out in note 29 of the Financial Statements.
Impairment assessment of intangible assets.	The Committee considered management's assessment of the recoverability of the intangible asset relating to the termination of the fragrance and Beauty relationship with Interparfums SA, using the latest projected sales and margins for the business. The reasonableness of these projections was considered, taking into account the current performance of the business. As a result of a reduction in projected sales since the last review, the asset was fully impaired in the period. The Committee considered the proposed disclosure relating to this impairment. Further details of the intangible asset are provided in note 12 of the Financial Statements.
Impairment assessment of property, plant and equipment and onerous lease provisions.	The Committee considered management's assessment of the recoverability of the carrying value of retail assets held in property, plant and equipment, and, where applicable, the potential need for provisions relating to onerous lease contracts. The Committee considered the approach applied by management to review for potential indicators of impairment and the assumptions applied in this review. Where impairments were identified, the Committee considered the reasons for the impairment and management's quantification of the impairment. The Committee requested management carry out a review across the property portfolio to identify any areas of risk in relation to potential future impairments. This review did not result in any change to the approach to the measurement of impairments within the current period. Further details of the impairment assessment are provided in note 13 of the Financial Statements.
The recoverability of the cost of inventory and the resulting amount of provisioning required.	The Committee considered the Group's current provisioning policy, the historical loss rates incurred on inventory held at the balance sheet date and the nature and condition of current inventory. At the request of the Committee, management carried out a Group-wide review of the application of the policy and presented the findings to the Committee. The Committee concluded the carrying value of the inventory was appropriate. Movements in inventory provisioning are set out in note 16 of the Financial Statements.
Accounting for the licence and transfer of the Beauty operation.	On 3 April 2017, the Group entered into an agreement to licence its Beauty trade marks and transfer its Beauty operation to Coty. The Committee considered management's assessment of how this transaction would be accounted for, including significant judgements regarding the appropriate treatment of receipts from Coty, the estimation of net realisable value of inventory being transferred to Coty and the timing of recognition of the transaction.
Income and deferred taxes.	The Senior Vice President – Group Tax, who reports to the Committee at each meeting, presented a detailed update of the Group's tax strategy, developments relating to discussions with tax authorities and the status of ongoing tax audits. The Committee reviewed and challenged the appropriateness of assumptions and judgements applied in order to estimate the amount of assets and liabilities to be recognised in relation to uncertain income tax and deferred tax positions. The Committee concluded that the assets and liabilities recognised and disclosures contained in the Financial Statements for the period were appropriate. Details of movements in tax balances are set out in notes 9 and 14 of the Financial Statements and further disclosure of tax contingent liabilities is given in note 30.
Fair, balanced and understandable reporting.	The Committee considered the Annual Report and Interim Report, on behalf of the Board, to ensure that they were fair, balanced and understandable, in accordance with requirements of the UK Corporate Governance Code. As part of this review, the Committee reviewed the report from the Strategic Report Drafting Team, highlighting key considerations. The Committee considered comments arising from the review of accounts by the executive directors. The Committee also considered the use of alternative performance measures by the Group, including the appropriateness of their current use and their disclosure in the financial statements and Strategic Report. The Committee concluded that their current use was fair, balanced and understandable.
Other matters.	At the May and November meetings, the Committee also considered management's papers on the following subjects: • assessment of the carrying value of goodwill; • accounting for contracts to buy back own shares; and • consideration of the potential impact of supplier rebates, which concluded that amounts received from supplier rebates did not have a material impact on the Group results.

External auditors
The Committee oversees the work undertaken by PricewaterhouseCoopers LLP ('PwC'). During the year the Committee met with the external auditors without members of management being present.

Appointment and fees
The Committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. The Committee assesses on an annual basis the qualifications, expertise, resources and independence of the external auditors and the effectiveness of the previous audit process. Over the course of the year, the Committee has reviewed the audit process and the quality and experience of the audit partners engaged in the audit. The Committee also reviewed the proposed audit fee and terms of engagement for the 2016/17 financial year. Details of the fees paid to the external auditors during the financial year can be found in note 7 in the Financial Statements.

PwC have remained in place as auditors since prior to the IPO of the Company in 2002. They were reappointed with a new lead audit partner following a formal tender process undertaken by the Group for the 2010/11 financial year. As the external auditors are required to rotate the audit engagement partner every five years, a new engagement partner Paul Cragg commenced his appointment from the 2015/16 financial year. As a result of the UK's implementation of the EU's mandatory firm rotation requirements, the Company is required to replace PwC with another firm of auditors no later than for the financial year commencing 1 April 2020, and considers the most practical and business-driven approach to be to conduct a competitive tender no later than 2019.

During the year, the Committee approved the reappointment, remuneration and terms of engagement of PwC as the Group's external auditor. The Committee recommended to the Board that it proposes to shareholders that PwC be reappointed as the Group's external auditors at the Group's forthcoming Annual General Meeting.

Non-audit services
The Committee recognises that the independence of the external auditors is an essential part of the audit framework and the assurance that it provides. The Committee has adopted a policy which sets out a framework for determining whether it is appropriate to engage the Group's auditors for non-audit services.

On 17 June 2016 the Financial Reporting Council ('FRC') issued the final version of the Ethical Standards for Auditors which is the means by which the FRC is implementing the new restrictions on external auditors when supplying non-audit services to organisations such as Burberry which, as a UK entity with securities traded on an EU-regulated exchange, is considered a public interest company (PIE).

The standard applies for Burberry from 1 April 2017, i.e. for the financial year ending 31 March 2018. The overall objective being to ensure that the provision of non-audit services does not impair the external auditors independence or objectivity. This will include, but will not be limited to, assessing:

- any threats to independence and objectivity resulting from the provision of such services;
- any safeguards in place to eliminate or reduce these threats to a level where they would not compromise the auditor's independence and objectivity;
- the nature of the non-audit services; and
- whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service.

The provision of non-audit services by the external auditor will also be restricted if they exceed the cap on the level of permitted non-audit service fees which can be billed. The cap on non-audit service fees is set at 70% of the average audit fees for the preceeding three years. The cap is calculated at two levels:

- Group calculation – all fees billed by the external auditor globally i.e. to any Burberry entity by any network firm of the auditor. This is compared to the audit fees billed to the Burberry Group; and
- UK calculation – all fees billed by the UK firm of the external auditor to any Burberry entity globally. This is compared to the audit fees billed by the UK audit firm for the audits of those entities.

Burberry has chosen to early adopt some of the requirements. Burberry exercised judgement in its adherence to the list of prohibited non-audit services for FY 2016/17.

Burberry has already been adhering in principle to the 'Group calculation' fee cap since 2014 and formally adopted the Group calculation fee cap restrictions from H2, FY2016/17. Accordingly, irrespective of the nature of the work to be performed, Burberry's external auditors cannot undertake non-audit work which would result in this threshold being breached.

The UK fee cap restriction will be applied for the audit for the year ending 31 March 2021, at which point it will be based on the average of audit fees for the years ending 31 March 2018, 2019 and 2020.

The auditors may provide non-audit services up to the 70% threshold that do not prejudice their independence, subject to prior approval as set out in the policy. The Senior Vice President, Risk Management and Audit, and the External Auditor will jointly monitor the level of non-audit services paid and approved throughout the year to ensure that the expected non-audit spend for each year will not exceed the 70% threshold.

Proposed fees above £100,000 must be approved by the Chairman of the Audit Committee, and fees must be activity based and not success related. At the half year and year end, the Audit Committee reviews all non-audit services provided by the auditors during the period and the fees relating to such services.

During the year, the Group spent £541k on non-audit services provided by PwC (being 27% of the average of Group audit fees received over the last three years). Further details can be found in note 7 of the Financial Statements.

Report of the Nomination Committee
Dear Shareholder,

This has been a busy year for the Committee. Following a business review that targeted future growth opportunities, in May 2016 the Group announced a productivity and efficiency programme including changes to ways of working. As part of this, with the full participation of all the non-executive directors, the Committee spent time considering the leadership roles required to maximise Burberry's ability to successfully implement these plans. It was identified that there was a need for a new chief executive with strong luxury retail experience to lead on the commercial, operational and financial elements of the business, who could partner with Christopher Bailey, who would continue his leadership of the brand and design elements of the business as President and Chief Creative Officer. These joint leadership roles would share responsibility for strategy and would report jointly to the Chairman. As Carol Fairweather had signalled her intention to step down as Chief Financial Officer and John Smith as Chief Operating Officer, the Committee also focused on the succession of these roles. To align with the change programme, the aim was to seek an individual with a strong financial and commercial background who could combine these roles.

The Committee engaged Egon Zehnder who specialises in the recruitment of high-calibre directors and to ensure that the process could be truly global. Egon Zehnder has no other connection with the Group. A search was initiated against an agreed profile and regular reports provided to the Committee as the process progressed. This yielded a pool of candidates which was reduced to a shortlist of potential candidates. Shortlisted candidates were assessed and were met by key Board members first and then with the non-executive directors. This culminated in one-to-one discussions with me and each of the non-executive directors to seek their views on the candidates. I am very pleased that the Committee considered that the right candidate for the position of Chief Executive Officer was Marco Gobbetti, and for the combined role of Chief Operating and Financial Officer was Julie Brown.

The Committee recommended these appointments to the Board and following unanimous Board approval, they were announced on 11 July 2016. Julie joined the Board on 18 January 2017 and Marco will join the Board on 5 July 2017. Carol stepped down from the Board on 18 January 2017 and John on 31 March 2017.

The Committee continues to work diligently on assisting the Board on building on its relevant skills and competencies for the future under the Board Succession Plan. (See Board and Committee composition and succession and Diversity – split of male/female Board members on page 76). The composition of the Board has evolved significantly over the past few years with the appointment of four new non-executive directors, and with one longer-serving non-executive director stepping down. It is anticipated that there will be further non-executive director changes to the Board in the coming year.

Following a review, the Committee Chairs were refreshed during the year with the appointment on 1 August 2016 of Jeremy Darroch as the Chair of the Audit Committee and Fabiola Arredondo as Chair of the Remuneration Committee. The review also resulted in changes to the composition of those Committees effective 1 February 2017 (see Board and Committee composition and succession on page 76).

Board succession and composition will continue to remain a priority for the coming year.

Sir John Peace
Chairman, Nomination Committee

Nomination Committee membership
The following directors served as members of the Committee during the year ended 31 March 2017:

Members	Appointment date
Sir John Peace (Chairman)	21 June 2002
Fabiola Arredondo	10 March 2015
Philip Bowman	21 June 2002
Ian Carter	18 May 2007
Jeremy Darroch	5 February 2014
Stephanie George	23 March 2007
Matthew Key	26 September 2013
Dame Carolyn McCall	1 September 2014

Role of the Committee
The main roles and responsibilities of the Nomination Committee are set out in written terms of reference, which are available on the Company's website at www.burberryplc.com. The Committee reviews its terms of reference annually.

The key areas of responsibility include the following.

- To review the balance and composition of the Board and its Committees, ensuring that they remain appropriate.
- To be responsible for overseeing the Board's succession planning requirements in light of the Group's strategy and the Group's position on diversity and inclusion. This includes the identification and assessment of potential Board candidates and making recommendations to the Board for its approval.
- To keep under review the leadership needs of, and succession planning for, the Group in relation to both its executive directors and other senior executives.

Activities during the year
The Committee met three times during the year under review. The table on page 75 gives details of directors' attendance at these meetings.

Other regular attendees at Committee meetings include the Chief Creative and Chief Executive Officer, the Chief People and Corporate Affairs Officer and the Company Secretary.

Annual General Meeting and annual re-election of directors
As required by the UK Corporate Governance Code, the Notice of the 2016 Annual General Meeting was sent to shareholders at least 20 working days before the meeting. A poll vote was taken on each of the resolutions put before shareholders. All directors serving at the time of the 2016 Annual General Meeting attended, and the Chairman of the Board and the Chairs of each of the Committees were available to answer shareholders' questions.

Voting at the upcoming 2017 Annual General Meeting will be by way of poll. The results of the voting at the Annual General Meeting will be announced and details of the votes will be available to view on the Group's website at www.burberryplc.com as soon as possible after the meeting.

It is the intention that all directors, including the Chairs of the Audit, Remuneration and Nomination Committees, will attend the 2017 Annual General Meeting and will be available to answer shareholders' questions.

All directors have, since the 2011 Annual General Meeting, offered themselves for annual re-election in accordance with the UK Corporate Governance Code. At the 2017 Annual General Meeting, all of the directors will again retire and all will offer themselves for re-election or, in the case of any newly appointed directors, for election.

The biographical details of the current directors can be found on pages 68 and 69 of this Annual Report. The Chairman confirms that, following the evaluation conducted during the year and the review of individual director roles and performance led by the Chairman, the performance of each of the directors standing for election continues to be effective and demonstrates commitment to their roles, including commitment of time for Board and Committee meetings and any other duties. Accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2017 Annual General Meeting relating to the re-election or election of the directors.

The terms and conditions of appointment of the directors, including the expected time commitment, are available for inspection at the Company's registered office.

Other governance disclosures
Tax strategy
The Group is committed to complying with global tax regulations in a responsible manner with due regard to governments and shareholders, and to engage in open and constructive relationships with tax authorities in the territories in which it operates. The Group's tax planning is consistent with this responsible approach, and it will not enter into arrangements for the purpose of achieving a tax advantage. The Group tax strategy is implemented through the Group's tax policy which directs and aligns the activities of the various functions within the Group in order to achieve the strategy's objectives.

Tax governance framework
The Chief Operating and Financial Officer is responsible for the Group's tax policy which is implemented with the assistance of the Finance Leadership team. This is reviewed on an ongoing basis as part of the regular financial planning cycle. In addition, the Group's tax status is reported regularly to the Group Risk and Audit Committees. The Audit Committee is responsible for monitoring all significant tax matters including the Group's tax policy. Audit Committee meetings are attended by a number of Group officers and employees including the Chief Operating and Financial Officer, the Senior Vice President – Group Tax, the Company Secretary, the General Counsel, and the Chief People and Corporate Affairs Officer, who oversees all corporate responsibility matters.

Share capital
Further information about the Company's share capital, including substantial shareholdings, can be found in the Directors' Report on page 113.

DIRECTORS' REMUNERATION REPORT

Dear Shareholder,

I am pleased to introduce the Directors' Remuneration Report which has been approved by both the Remuneration Committee (the 'Committee') and the Board for the year ended 31 March 2017.

Thank you to Ian Carter for his leadership over the last four years, and thank you for entrusting me with the opportunity to lead the Committee. Looking forward, I would like to reflect the Remuneration Committee's commitment to setting measured executive remuneration that motivates talent, supports the execution of the Company strategy, drives performance, and most importantly, is aligned with the delivery of long-term shareholder value.

During the year the Board reviewed the composition of all its Committees. Given the increasing complexity and time commitment required of serving members, we reduced the Remuneration Committee to four non-executive directors: Philip Bowman, Stephanie George, Ian Carter and I. We are grateful to Jeremy Darroch, Matthew Key and Dame Carolyn McCall for their respective prior contributions.

As you are aware, 2016/17 was a year of senior leadership Board level change at Burberry. This past January, Julie Brown joined as Chief Operating and Financial Officer and Marco Gobbetti joined as Executive Chairman, Asia Pacific and Middle East. On 5 July 2017 Marco will join the Board as Chief Executive Officer. Christopher Bailey will transition from his role of Chief Creative and Chief Executive Officer to become President and Chief Creative Officer. Julie and Marco bring experience that is invaluable to the delivery of our strategy and the long-term growth of the business. Likewise, Christopher's ongoing strategic contribution and creative talent will continue to advance the Burberry product and brand. Details of Marco, Julie and Christopher's remuneration are set out on page 106.

After ten years at Burberry, Carol Fairweather stepped down as Chief Financial Officer in January and left the Company on 31 March 2017; John Smith resigned to pursue new interests and stepped down from his role as Chief Operating Officer in January and from the Board on 31 March 2017. He will leave the business on 12 June 2017. Both Carol and John have effectively supported Julie's transition into the business, and I would like to thank them for their commitment to the Company. Details of payments to Carol and John are set out on pages 108 and 109.

2017 Remuneration Policy

In setting the 2017 remuneration policy (the 'Policy'), the Committee prioritised the reduction of the overall maximum potential quantum and established clear measures to align the long-term interests of executives with those of shareholders.

Given the recent Executive Director level changes, the Committee decided that it was prudent to maintain the existing operational performance measures for the annual bonus and the Executive Share Plan (the 'ESP'). However, we have added flexibility to the ESP by widening the ranges for the potential weightings of the measures that comprise it. Once the senior team is fully integrated and has the opportunity to further develop Burberry's strategy, it may be necessary to make additional changes to the Policy in 2018. Should this occur, we will consult with shareholders, and potentially put the Policy to another vote at the 2018 AGM.

For the 2017 Policy, the Committee is recommending the following key changes:

Reduction in pay policy maxima for executive directors

- Reduction in the annual bonus policy maximum from 225% to 200% of salary
- Reduction in both 'normal' and 'exceptional' maximum level of award under the ESP from 400% to 325% and from 600% to 375% of salary respectively
- Reduction in the level of vesting for threshold performance under the ESP from 25% to 15% of awards
- Reduction in the maximum annual salary increase from 15% to 10%, with the expectation that annual increases will not normally exceed the average increase for the employee population
- Reduction of the maximum relocation benefits that may be paid to current executive directors from £250,000 to £200,000
- Reduction of pension contribution from 30% to 20% of salary for new external executive director appointments
- Removal of the ability to award 'sign on' bonus or share awards (other than buy-outs) on recruitment

Alignment with shareholders

We have increased our shareholding guidelines to further align the interests of executives with shareholders. The guideline for Christopher Bailey will remain at 500,000 shares as this is considered a significant holding (circa eight times salary as at the 31 March 2017 closing price of £17.24). We have increased the guideline for the other executive directors from two times to three times base salary. We will continue to require retention of 50% of shares from the vesting of awards, and an investment of 50% of annual bonus paid (net of tax) until individual executives meet the guidelines. The Committee has also indicated to executive directors that, other than in exceptional circumstances, progress should be made towards the guidelines, even in years when incentives have not vested.

Formalising best practice into the Policy

For executive directors, clawback provisions apply to the annual bonus award. ESP awards granted to executive directors are subject to a holding period of five years from the date of award. Both clawback and malus provisions will now apply to the ESP award. The holding period and clawback best practice features will be included in the formal Policy going forward.

Remuneration for 2017/18

The details of the Committee's intended approach to the operation of remuneration policy during the 2017/18 year are set out in section 4. Please note the following:

- There are no increases to base salaries for executive directors.
- There are no changes to the levels of annual bonus award for executive directors of up to 200% of salary at maximum. The annual bonus will continue to be 100% based on adjusted PBT.
- There are no changes to the levels of the ESP award for the executive directors: 325% of salary for Christopher Bailey and Marco Gobbetti and 300% of salary for Julie Brown. We have retained 2016 operational performance measures for the ESP that focus on revenue, profitability and the efficient use of capital, with the same weightings as in 2016/17. Targets have been carefully calibrated to ensure that they are stretching and aligned with strategy, latest performance objectives and long-term value creation for our shareholders.

Remuneration for 2016/17

As set out in the Strategic Report on pages 9 to 65, 2016/17 was a challenging year for the luxury sector overall. In addition to the macro environment, the Committee recognised that 2016/17 was a year of significant leadership transition for the Company, and that it was critical to retain key talent and keep the business moving forward during this period. In this business context, the Company delivered revenue of £2,766m and Adjusted profit of £462m, and the incentive outcomes are as follows:

- Annual bonus: Adjusted PBT achieved was just below the bonus target resulting in a bonus payment of 46% of maximum. Notwithstanding the strong strategic progress made during the year, Christopher Bailey decided that he did not wish to be considered for any bonus in respect of 2016/17 in light of the underlying financial performance of the business for the year. The Committee welcomed and agreed with his decision.
- The long-term incentive awards based on Adjusted PBT and granted in 2014 – Co-Investment Plan ('CIP') awards and 50% of Restricted Share Plan ('RSP') awards – will not vest as Adjusted PBT declined over the three-year period ending in 2016/17. The remaining 50% of 2014 RSP awards based on total shareholder return ('TSR') relative to our peers will vest at 38.5% of maximum as we outperformed the median of our TSR comparator group. More detail is provided on pages 99 and 100.
- The Committee has reviewed performance for the year against the criteria on Christopher's 2014 exceptional share award and has determined that achievement for 2016/17 was 50% of maximum. This gives an overall vesting outcome of 61.7% of maximum for tranche 1 of this award based on annual assessment of performance over three years (2014/15: 85%, 2015/16: 50% and 2016/17: 50%). The Committee believes this level of vesting appropriately reflects the progress of the business in executing our strategy and Christopher's contribution to this over the period. This award will vest in July 2017 and section 2.6 of this report provides further detail.
- As set out in the Remuneration Report last year, Christopher deferred the vesting date of the first tranche of his 2013 exceptional award, made prior to joining the Board, from July 2016 to July 2017. Both the first and second tranches of this award will therefore vest in July 2017, as set out in section 2.7.

The 2017 Remuneration Policy and the 2016/17 Annual Report on Remuneration will be put to the vote at the AGM on 13 July 2017. On behalf of the Remuneration Committee, thank you to our shareholders for your feedback on the development of the Policy. I look forward to on-going discussions on executive remuneration and appreciate your engagement, consideration and support at the AGM.

Fabiola R. Arredondo
Chair, Remuneration Committee

Summary contents

The Directors' Remuneration Report is set out in the following sections:

1. Directors' Remuneration Policy

Annual Report on Remuneration

2. Directors' remuneration in 2016/17
3. Outstanding share interests
4. Directors' remuneration in 2017/18
5. Further information on remuneration for new executive directors
6. Further information on remuneration for Carol Fairweather
7. Further information on remuneration for John Smith
8. Remuneration Committee in 2016/17
9. Eight-year performance graph and Chief Executive Officer remuneration

1. Directors' remuneration policy

Burberry's directors' remuneration policy as set out in this report will be put to shareholders for approval at the 2017 Annual General Meeting ('AGM') to be held on 13 July 2017. It is the Committee's intention that the remuneration policy will apply to payments made from the date of the 2017 AGM. We have made the changes outlined in the introductory letter to reduce the policy maximum level of pay for executive directors, to reflect best practice, to align with shareholder expectations and to ensure that the policy has the necessary flexibility to support the business as the strategy evolves. Additionally, changes have also been made to increase clarity or to simplify.

The Committee believes that Burberry's remuneration should be strongly linked to business performance and strategic direction taking into account the global markets in which it operates and from which it recruits talent. The 2017 Remuneration Policy is based on the following principles:

<u>Linked to the performance and strategy of the business</u>: the overall remuneration framework should provide a balance between key short-term and long-term business objectives. Variable pay for executive directors includes (1) an annual cash bonus based on short-term indicators of the financial performance of Burberry and (2) long-term share-based incentives again linked to the financial performance and key performance indicators of Burberry. More detail on the Company's key performance indicators linked to executive remuneration and their strategic alignment is set out on pages 28 and 29.

<u>Shareholder value and alignment</u>: remuneration should provide close alignment with long-term value creation for shareholders through the selection of appropriate performance measures and targets, should be tied to the future success of the Company, and should emphasise variable pay and deliver a significant proportion of remuneration in shares, some of which are expected to be retained in accordance with the shareholding guidelines.

<u>Competitive in the global talent market</u>: total remuneration should be sufficient to attract, motivate and retain exceptional talent. The Committee takes into account Burberry's main global competitors for talent and comparable UK companies when considering the total remuneration for executive directors. The Committee recognises that, for each executive, the relative importance of these reference groups may be different depending on the skills and experience required to undertake the specific role. Benefits are based on competitive market practice for each executive depending on individual circumstances.

1.1 Directors' remuneration policy effective from 13 July 2017

Purpose	Maximum annual opportunity and link to performance	Operation
Executive directors		
Base salary To recognise the responsibilities, experience and ability of our talent in a competitive global environment, keeping our people focused on, and passionate about, the brand.	The maximum annual increase (per individual executive director) is 10% of base salary; however, annual increases will not normally exceed the average increase for the broader employee population.	Salary levels and any increases for executive directors are set within the same framework and ranges as those for all other employees, taking into account individual performance and overall contribution to the business during the year, cost to the Company, the external economic climate and positioning against peers. The Committee considers the impact of any base salary increase on the total remuneration package.
Annual bonus To reward executive directors for achieving annual financial targets linked to the strategic plan agreed by the Board.	Maximum awards are: • 200% of salary Performance measure: • 100% linked to adjusted profit performance Percentage of maximum bonus payable at each level of performance: • 25% at threshold • 50% at target • 100% at maximum	The Committee recognises that strong financial performance is key to delivering superior shareholder returns and that annual profitability is a key measure of this. Targets are set each year by reference to budget, the strategic plan, long-term financial goals, latest projections for the relevant year and broker earnings estimates for Burberry and its competitors. Targets will be disclosed retrospectively following completion of the relevant financial year. Executives are required to invest 50% of any net bonus earned until executive shareholding guidelines are met. **Clawback provision:** During the period of three years from date of payment (whether in cash or shares), the Company may seek to recover any bonus from individual directors in whole or in part in the event of a material misstatement in the Company's audited financial statements or if the bonus outcome has been incorrectly calculated. **Use of judgement:** The Committee may determine that it is appropriate to adjust the bonus outcome if, for example, outcomes are not considered to be reflective of underlying performance or where targets are no longer appropriate. It is anticipated that any adjustment would be infrequent and in exceptional circumstances only and within the limits of the policy. Details of any application of judgement would be disclosed at the time in the relevant remuneration report.

Purpose	Maximum annual opportunity and link to performance	Operation
Burberry Executive Share Plan ('ESP') To focus executives on, and reward them for, sustainable long-term performance and successful execution of the Company's long-term strategy. To help maintain the stability of the top executive team, and align executives' interests with those of shareholders.	Maximum awards are: • 325% of salary (in normal circumstances) • 375% of salary (in exceptional circumstances, to be determined at the Committee's discretion) Performance measures for executive directors to be measured over three financial years: • 20% to 40% on growth in revenue • 40% to 60% on growth in adjusted profit • 20% to 30% on a measure to incentivise the efficient use of capital For each of the measures the vesting profile shall be as follows: • No more than 15% vesting for threshold performance • 100% vesting for maximum performance Vesting: 50% after three years, remaining 50% after four years. Holding period: while executive directors are employed by Burberry, normally no ESP shares may be sold, except to cover any tax liabilities arising out of the award, until five years from the date of grant.	Targets for the measures will be calibrated ahead of each annual grant by reference to the latest strategic plan, long-term financial goals, latest three-year projections and broker earnings estimates for Burberry and its competitors. The threshold targets will be calibrated to be of median difficulty, and the maximum targets will be of upper quartile difficulty as determined by the Committee. Targets will be disclosed ahead of each annual grant and for completed cycles, detail on the performance achieved against the targets will be disclosed. Burberry's strategy currently aims to deliver both profit and revenue growth and therefore to align with strategy, a measure based on revenue growth is included as a transparent and quantifiable indicator of performance. Growth in adjusted profit has been chosen as the Committee believes strong growth in adjusted profit is key to delivering superior shareholder returns. The efficient use of capital measure is intended to incentivise management to combine superior growth in profit and revenue with attractive returns on future investment but not to act as a disincentive to invest. A cash payment equivalent to the value of dividends which would have been received during the vesting period will be paid only in respect of shares that vest. The awards are structured as nil-cost options or conditional rights to receive free shares on vesting. **Discretion:** The Committee retains the discretion to grant awards of up to 375% of salary in exceptional circumstances. The Committee may vary the weighting applied to each measure within the ranges shown. **Use of judgement:** The Committee will have the ability to adjust the calculated level of vesting by reference to the quality of earnings and effective execution of strategy to ensure the growth delivered is long-term sustainable growth and within the limits of the policy only. Details of any adjustments would be disclosed in the relevant remuneration report. **Malus provision:** Unvested shares or awards may be forfeited in whole or in part in the event of a material misstatement in the Company's audited financial statements. **Clawback provision:** During the period of three years from date of vest, the Company may seek to recover any vested shares or awards from individual directors in whole or in part (or cash of equivalent value) in the event of a material misstatement in the Company's audited financial statements or if the outturn has been incorrectly calculated.
All-employee share plans To encourage employee share ownership at all levels.	Sharesave: maximum savings amount of £6,000 per annum, with which shares can be purchased with a 20% discount. Share Incentive Plan and International Freeshare Plan: awards with a value of up to £500 per annum.	Burberry operates two all-employee share plans: The Sharesave Scheme offers eligible employees (including executive directors) an opportunity to enter into a three- or five-year savings contract to save a portion of their salary which can be used to purchase Burberry shares, normally at the end of the savings contract, at up to a 20% discount to the market price at the date of invitation. Awards of shares or a cash equivalent (where the use of shares is not possible) are made annually to all eligible employees under the UK Share Incentive Plan and International Freeshare Plans. **Discretion:** The Committee reserves the right to increase the maxima to the extent that the change is made on the same basis for all employees participating in the plan.
Pensions To offer market-competitive benefits.	Maximum company contribution: 30% of salary per annum for the current executive directors. For any new external executive director appointments, the maximum Company contribution will be no more than 20% of salary per annum.	Executive directors participate in defined contribution arrangements. Participants may elect to receive some or all of their entitlement as a cash allowance.

Purpose	Maximum annual opportunity and link to performance	Operation
Other benefits and allowances To promote the well being of employees, allowing them to focus on the business.	Executive directors receive a cash allowance and non-cash benefits. The aggregate maximum value of benefits would not normally exceed £100,000 per individual per annum (other than in circumstances deemed to be exceptional by the Committee). The Committee may agree that the Company will pay additional allowances linked to relocation or international assignment. For the purposes of providing a maximum, this will not exceed £200,000 in any year for any one existing director. Christopher Bailey is entitled to a cash allowance of £440,000 per annum, as agreed in his previous role, prior to his appointment as an executive director. He is also entitled to receive the non-cash benefits, as noted to the right; the value of these is not normally expected to exceed £20,000 per annum.	Benefit levels are reviewed on an annual basis and, while the Committee does not intend to increase the level of provision above the maximum value, the cost to the Company of providing benefits can vary due to a number of factors outside the Company's control. Benefits for executive directors may include, but are not limited to: • private medical insurance • life assurance • long-term disability insurance • car allowance • clothing allowance • employee discount Reasonably incurred expenses will be reimbursed. The Company may meet any tax liabilities that may arise on expenses. **Discretion:** The Committee retains the discretion to provide other benefits to the executive directors as deemed necessary.

Discretion to honour all prior commitments
The Committee reserves the right to make any payments (including exercising any discretion it has relating to such payments) where the terms were agreed before this policy came into effect or prior to an individual being appointed a director of the Company. For these purposes entitlements arising under the Company's current remuneration policy (as approved by shareholders at the 2014 AGM) will be incorporated into this policy, and 'payments' includes the Committee satisfying awards of variable remuneration, and an entitlement under an award over shares (or cash of equivalent value) arising at the time the award is granted.

Notes on share awards:
– Adjustment of share awards: The number of shares subject to an award (and the option price, where relevant) can be adjusted on a rights issue, special dividend, de-merger or variation of capital or similar transaction. Subject to the plan rules, share awards can be satisfied by a cash payment equal to the value of shares the participant would otherwise have received.
– In respect of our share plans, this table presents a summary of the key and relevant information for the Plan Rules. It is the Committee's intention that these plans will operate in accordance with the Plan Rules as approved by shareholders (where applicable).

A summary of the changes between the Policy set out above for the executive directors and the Company current Policy (as approved at the 2014 AGM) is set out on pages 87 and 88 within the Committee Chair's letter.

Purpose	Maximum annual opportunity	Operation
Non-executive directors		
Chairman – fees To attract and retain a high-calibre chairman by offering a market-competitive fee.	Maximum increase: 10% of fee (per annum over period since last review date).	The Chairman is paid a single fee for all responsibilities. The fee level is reviewed at least every three years by the Committee, with reference to UK market levels in companies of a similar size, the time commitment and personal contribution. The fee is paid in cash.
Non-executive directors (NEDs) – fees To attract and retain high-calibre non-executive directors by offering market-competitive fees.	Maximum increase for each type of fee (per individual director): 10% of fee (per annum over period since last review date).	The NEDs are paid a basic fee. The Chairs of the Audit and Remuneration Committees and the Senior Independent Director are paid an additional fee to reflect their extra responsibilities. Fee levels are reviewed at least every three years by the Board, with reference to UK market levels in companies of a similar size. Fees are paid in cash.
Chairman and NEDs – other benefits To enable the Chairman and NEDs to undertake their roles.	Non-executive directors receive a £2,000 attendance allowance per meeting for attendance at Board meetings outside of their country of residence (except the Chairman) and, as brand ambassadors, discount on Burberry products. Other benefits may be provided where appropriate. Benefit levels are reviewed on an annual basis and the value can vary year-on-year. Any additional benefits will be set at a level appropriate to the role and individual. The Company may meet any tax liabilities that may arise on expenses or benefits.	Attendance allowances are paid in cash. Reasonably incurred expenses will be reimbursed. The Chairman is eligible to receive healthcare cover and has access to a car and driver.
NEDs – additional fees To allow flexibility to provide additional fees if required.	Maximum additional fee: £20,000	The Company has the discretion to pay an additional fee to a NED should the Company require significant additional time commitment in exceptional circumstances. The Company currently has no intention to use this discretion.

The Policy above includes the addition of healthcare cover and a car and driver for the Chairman, which are considered appropriate benefits for this role.

<u>1.2. Policy on recruitment and promotion arrangements</u>

Except as described below, the Committee will pay new directors in accordance with the approved remuneration policy. The ongoing annual remuneration arrangements for new executive directors will therefore comprise base salary, annual bonus, ESP award, pension, benefits and all-employee share plans. In addition, the recruitment policy below permits the Committee to take the following actions, if appropriate, in the best interests of the Company and therefore shareholders.

- For an internal appointment, any commitment made in respect of the prior role will be allowed to pay out according to its terms.
- For external and internal appointments, the Committee may agree that the Company will pay certain reasonable allowances linked to relocation (and the limit in the policy table for existing directors will not apply in this case) as appropriate and will meet reasonable expenses/reimburse an executive against additional costs on appointment. In addition, the Committee may agree that the Company will pay certain reasonable allowances linked to repatriation on termination of employment.
- For external appointments, the Committee may offer additional cash and/or share-based elements to take account of remuneration relinquished when leaving a former employer. As far as possible and appropriate, such payments would reflect the nature, time horizons and performance requirements attaching to the relinquished remuneration.
- If necessary, the Committee may enter into a service contract with a longer initial notice period to secure the appointment of an executive from an environment where longer notice periods are market practice. The notice period would be reduced to 12 months or less on a rolling basis after the initial longer period has finished.
- For internal appointments the terms and conditions of the individual employment prior to the appointment will remain in force unless the Committee otherwise decides and the individual agrees.

1.3. Supplementary information

Remuneration policy in the rest of the Company

The remuneration arrangements for executive directors outlined in section 1.1. above are consistent with those for the other senior executives, although quantum and award opportunities vary by executive level.

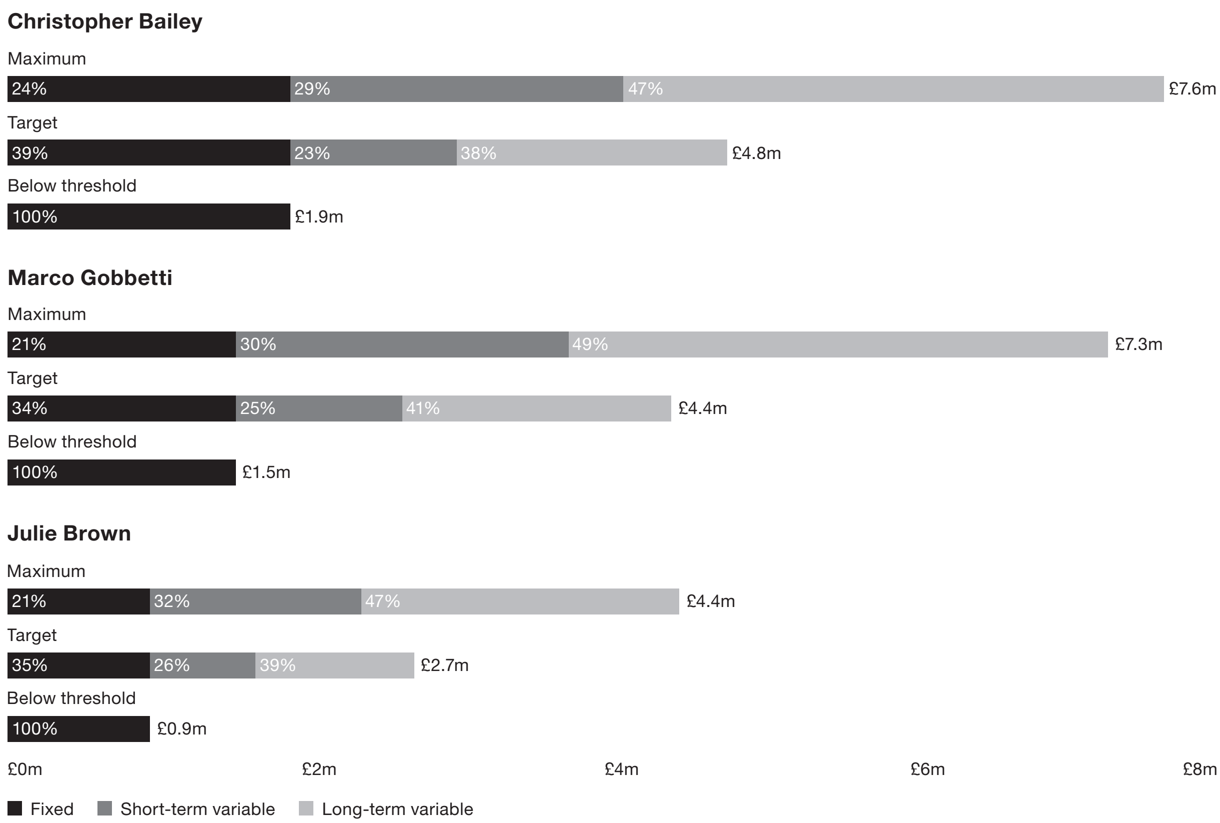
In making its decisions on executive remuneration, the Committee considers the reward framework for all employees worldwide, ensuring that the principles applied are consistent with the executive remuneration policy. Merit increases awarded to executives are determined within the broader context of employee remuneration. All our employees are eligible for an annual bonus based on performance and the principle of shareholder alignment is reflected throughout the organisation through our all-employee share plans, which are (where legally possible) extended to all eligible Burberry employees globally.

Burberry is also a partner of the Living Wage Foundation and accredited as a UK Living Wage employer.

Indicative total remuneration levels

A substantial portion of executive director remuneration is dependent on Company performance. The charts below illustrate indicative levels of total remuneration which would be received by each executive director under the remuneration policy set out above on pages 90 to 92 for the first complete financial year in which the policy will apply (from 1 April 2017) at each of: (1) maximum, (2) target and (3) below threshold performance scenarios.

Executive director total remuneration at different levels of performance



Notes:
- "Maximum" remuneration includes fixed pay plus maximum annual bonus (100% of opportunity which is 200% of salary for all executive directors) and 100% vesting of ESP award (325% of salary for Christopher Bailey and Marco Gobbetti and 300% of salary for Julie Brown).
- "Target" remuneration includes fixed pay plus target annual bonus (50% of maximum) and 50% vesting of ESP award.
- "Below threshold" remuneration includes fixed pay only (salary, pension and cash allowances).
- No share price growth or dividend payments have been applied to share awards included in these indicative total remuneration figures.
- Salaries are assumed to be at the levels that will apply from 1 July 2017.
- Christopher Bailey's exceptional share awards have been excluded as they do not form part of the 2017 forward-looking general policy.
- Marco Gobbetti and Julie Brown's buy-out bonuses and share awards have been excluded as they do not form part of their on-going annual remuneration.

Policy on service agreements and termination provisions

Executive directors

The Company's general policy on executive directors' service agreements is that they operate on a rolling basis with no specific end date and include a 12-month or less notice period both to and from the Company. The table below sets out information on service agreements for the current executive directors. Christopher Bailey has a service agreement put in place prior to implementation of this policy and includes at least a six-month notice period to the Company.

	Date of current service agreement	Date employment commenced	Notice period to the Company	Notice period from the Company
Christopher Bailey	30 April 2014	7 May 2001	6 months	12 months
Julie Brown	11 July 2016	18 January 2017	12 months	12 months

Standard terms on termination

Salary, benefits and allowances: Executive directors continue to receive salary, benefits and allowances during their notice period. Pursuant to the terms of Business Protection Agreements (which set out restrictive covenants and terms relating to the non-solicitation of employees) in place with the executive directors (except Christopher Bailey), payments equal to salary for the duration of certain restrictive covenants may be made if the employer chooses to enforce them to protect Burberry's continuing business.

Annual bonus paid in cash: An executive considered to be a 'good leaver' (for example leaving the Company on retirement, redundancy, ill health, as a result of death in service or in other circumstances determined by the Committee) may remain eligible for a pro-rated payment of the annual bonus subject to achievement of bonus targets. An executive director who has left employment for a reason such as joining a competitor company during the performance period or before the payment is due, or who has given or been given notice, will not be eligible to receive an annual bonus. The Committee retains discretion to vary the approach and the payment of annual bonus to leavers, as outlined below.

ESP awards: For an executive considered to be a 'good leaver' (including leaving the Company on retirement, redundancy, ill health, as a result of death in service or in other circumstances determined by the Committee), outstanding awards will be pro-rated for time and vest subject to performance on the original vesting date. For an executive director whose employment is terminated for any other reason (such as leaving to join a competitor company) during the performance period, ESP awards will lapse in full. The Committee retains discretion to vary the approach and the extent to which awards vest for leavers, as outlined below.

Other: Reasonable disbursements (for example, legal or professional fees, relocation/repatriation costs) may be paid. Any other employee share plan entitlements (such as under the Sharesave Scheme, UK Share Incentive Plan or the International Freeshare Plan) will be dealt with in accordance with the rules of the relevant plan and the Committee may exercise the discretions provided under those plans.

Discretion: In the Committee's experience, directors leave for a wide variety of reasons and individual circumstances, which do not all fall within the 'good leaver' categories outlined above. The Committee therefore retains discretion to approve payments to individuals based on individual circumstances and performance while in office or employment. In applying any such discretion, the Committee will make any decisions by considering the best interests of shareholders and those of the remaining employees including executive directors. Where awards are subject to performance conditions, these would be tested at the end of the relevant period(s) and any award which is allowed to vest would be pro-rated for time in office or employment.

Christopher Bailey

The Company has agreed specific arrangements with Christopher Bailey in relation to termination of his employment in substitution for the first two sections of the standard terms described in the previous section ('Salary, benefits and allowances' and 'Annual bonus paid in cash'). These specific arrangements are described below.

The Company may terminate Christopher Bailey's service agreement without cause by giving 12 months' written notice. The Company may terminate the service agreement immediately, in its sole discretion, by written notice and electing to pay to Christopher Bailey either (1) a lump sum representing his salary in lieu of the unexpired notice period within 14 days of termination or (2) in monthly instalments of 1/12 of his annual salary and 1/12 of his annual allowance of £440,000 in lieu of the unexpired notice period or until Christopher Bailey commences any new employment or engagement if earlier. Christopher Bailey must use his reasonable endeavours to seek alternative employment during the balance of his unexpired notice period. The Company will also pay Christopher Bailey a bonus for the year in which employment terminated subject to achievement of the performance targets and other requirements of the bonus arrangements for that year, pro-rated to actual service in the bonus year. The bonus would be paid on the usual bonus payment date.

Christopher Bailey may terminate his service agreement at any time for 'Good Reason', provided he has requested that the Company remedy the relevant breach within 14 days of notification and the Company has failed to do so. 'Good Reason' means the Company is guilty of serious and continued non-observance or breach of the terms of the service agreement or of any applicable substantial laws which are detrimental to Christopher Bailey. On termination for 'Good Reason' Christopher Bailey is entitled to a lump sum payment representing his salary in lieu of notice. The Company will also pay Christopher Bailey a bonus for the year in which employment terminated subject to achievement of the performance targets and other requirements of the bonus arrangements for that year, pro-rated to actual service in the bonus year. The bonus would be paid on the usual bonus payment date.

The Company may terminate the service agreement on health grounds by giving Christopher Bailey not less than six months' notice once Christopher Bailey's entitlement to Company sick pay has been exhausted or he has been incapacitated for more than 26 weeks (whether or not continuous) in any period of 52 weeks. The Company may, in its sole discretion, terminate the employment by making a payment of 130% of his salary, and pay the allowance in lieu of notice within 14 days of termination. The Company will also pay Christopher Bailey a bonus for the year in which employment terminated subject to achievement of the performance targets and other requirements of the bonus arrangements for that year, pro-rated to actual service in that year. The bonus would be paid on the usual bonus payment date.

If Christopher Bailey dies during his employment with the Company, the Company will pay his estate his salary to the termination date and a bonus calculated as for an ill health termination described above.

Upon termination of the service agreement, Christopher Bailey's entitlements (if any) under the relevant share plans in which he participates will be determined in accordance with the rules of those plans, as described above.

Corporate events

Upon a change in control of the Company, outstanding ESP awards will, unless the Committee determines otherwise, be pro-rated for time and vest subject to performance at the point of change in control. Alternatively, they can be exchanged for equivalent awards over shares in the acquiring company. The Committee can also allow full or partial vesting on a de-merger, special dividend, distribution in specie or if the participant is relocated in circumstances which would give rise to unfavourable tax treatment. Malus, clawback and holding period requirements will cease to apply following a change of control.

Any other employee share plan entitlements (such as under the Sharesave Scheme, UK Share Incentive Plan or the International Freeshare Plan) will be dealt with in accordance with the rules of the relevant plan and the Committee may exercise the discretions provided under those plans.

Non-executive directors

The non-executive directors serve under Letters of Appointment with the Company. Non-executive directors may continue to serve subject to the annual re-election by shareholders at each AGM of the Company, subject to six months' notice by either party. There are no provisions for compensation for loss of office in the Letters of Appointment.

1.4. Development of directors' remuneration policy

In developing and reviewing the directors' remuneration policy, the Committee is mindful of the views of shareholders and is sensitive of the relativities of arrangements for executive directors to those for employees more generally.

The Committee proactively seeks feedback from shareholders when considering any significant changes to remuneration for executive directors. The Committee also listens to and takes into consideration investor views more generally throughout the year. For example, the Company consulted with its largest shareholders in the autumn of 2016 regarding 2016 ESP awards (in particular the performance measure targets that apply) and refined the proposals based on the feedback received and consulted in the spring of 2017 on the 2017 remuneration policy.

Employees are free to communicate their views internally on any topic including the remuneration policy for directors by using the Burberry internal social media platform or using the employee confidential helpline. In addition, many of Burberry's employees are shareholders, through the Sharesave and Free Share plans, and they, like other shareholders, are able to express their views on directors' remuneration at each general meeting. During 2017 Burberry will launch its all-employee engagement survey. Views of our employees generally and on their remuneration will be taken into account when building future plans. However, given the scale, geographic spread and the diversity of roles of Burberry's employees, the Committee does not proactively consult with employees specifically on the remuneration policy for directors.

2. Directors' remuneration in 2016/17 (Annual Report on Remuneration)

The information set out in this section has been subject to external audit where indicated.

2.1. Single figure of total remuneration outcomes for 2016/17 (audited)

The table below sets out the single figure of total remuneration received or receivable by the directors in respect of the 2016/17 financial year. The single figures of total remuneration are also included for the prior (2015/16) financial year.

	Salary/ fees £'000	Benefits/ allowances £'000	Pension £'000	Bonus £'000	CIP[1] £'000	RSP[2] £'000	2014 Exceptional award[3] £'000	**LTI total £'000**	**Total £'000**	Prior company bonus buyout[4] £'000	Prior company shares buyout[4] £'000	**TOTAL £'000**
Executive directors												
Christopher Bailey												
Year to 31 March 2017	1,100	469	330	–	–	240	1,392	**1,632**	**3,531**	–	–	**3,531**
Year to 31 March 2016	1,100	464	330	–	–	–	–	**–**	**1,894**	–	–	**1,894**
Julie Brown[4]												
Year to 31 March 2017	143	13	43	–	–	–	–	**–**	**199**	550	3,985	**4,734**
Non-executive directors												
Sir John Peace												
Year to 31 March 2017	400	3							**403**	–	–	**403**
Year to 31 March 2016	400	4							**404**	–	–	**404**
Fabiola Arredondo												
Year to 31 March 2017	103	144							**247**	–	–	**247**
Year to 31 March 2016	80	86							**166**	–	–	**166**
Philip Bowman												
Year to 31 March 2017	112	36							**148**	–	–	**148**
Year to 31 March 2016	135	14							**149**	–	–	**149**
Ian Carter												
Year to 31 March 2017	92	134							**226**	–	–	**226**
Year to 31 March 2016	115	81							**196**	–	–	**196**
Jeremy Darroch												
Year to 31 March 2017	103	–							**103**	–	–	**103**
Year to 31 March 2016	80	–							**80**	–	–	**80**
Stephanie George												
Year to 31 March 2017	80	106							**186**	–	–	**186**
Year to 31 March 2016	80	103							**183**	–	–	**183**
Matthew Key												
Year to 31 March 2017	80	3							**83**	–	–	**83**
Year to 31 March 2016	80	5							**85**	–	–	**85**
Dame Carolyn McCall												
Year to 31 March 2017	80	3							**83**	–	–	**83**
Year to 31 March 2016	80	3							**83**	–	–	**83**
Former executive directors												
John Smith[5]												
Year to 31 March 2017	592	44	178	408	–	129	–	**129**	**1,351**	–	–	**1,351**
Year to 31 March 2016	592	43	178	-	–	–	–	**–**	**813**	–	–	**813**
Carol Fairweather[6]												
Year to 31 March 2017	399	27	120	275	–	153	–	**153**	**974**	–	–	**974**
Year to 31 March 2016	500	33	150	–	–	–	–	**–**	**683**	–	–	**683**
Former non-executive directors												
David Tyler[7]												
Year to 31 March 2016	60	–							**60**	–	–	**60**

Notes:

1 The PBT performance condition attached to the 2014 CIP awards was not met and so none of these awards will vest.

2 The amounts shown for 2014 RSP awards vesting for Christopher Bailey, John Smith and Carol Fairweather shown (for year to 31 March 2017) are based on a share price of £16.721 (average share price over the three months to 31 March 2017) as these awards have not yet vested.

3 The amount shown as '2014 Exceptional award' for Christopher Bailey relates to vesting of the first tranche of his 2014 exceptional share award, for which 77,084 of a maximum 125,000 shares will vest on 31 July 2017. As this award has not yet vested the value is based on a share price of £16.721 (the average share price over the three months to 31 March 2017) and includes an estimated payment of £103,523 in lieu of dividends.

4 Remuneration for Julie Brown relates to the period 18 January 2017 to 31 March 2017. As compensation for the incentives she forfeited on leaving her previous employer, Julie Brown received a cash bonus of £550,000 (included in 'Prior company bonus buyout') and was granted nil-cost options over 240,000 shares (included in 'Prior company shares buyout') at a grant price of £16.6033 (the average share price over the 3 days prior to grant) used to calculate the value of the grant shown above. Further detail on these buyout awards is included on page 108. Julie Brown serves as a non-executive director of Roche Holdings and it was agreed that fees earned in connection with this appointment can be retained by her. For the period 18 January to 31 March 2017, Julie's pro-rata fees for this appointment were £47,990. As set out in section 3.3, Julie will use 50% of her net of tax bonus buy-out award to buy Burberry shares.

5 2016/17 remuneration for John Smith relates to the period 1 April 2016 to 31 March 2017, when he stepped down from the Board.

6 2016/17 remuneration for Carol Fairweather relates to the period 1 April 2016 to 18 January 2017, when she stepped down from the Board.

7 Fees for David Tyler for the 2015/16 year relate to the period 1 April 2015 to 31 December 2015, when he stepped down from the Board.

The table below details the benefits/allowances received by the directors during the 2016/17 year:

2016/17 benefits/ allowances (£'000)	Cash allowance	Car allowance	Clothing allowance	Private medical insurance	Life assurance	Long-term disability insurance	Expenses[2]	Tax on expenses	**Total £'000**
Executive directors									
Christopher Bailey	440	–	–	18	6	5			**469**
Julie Brown	–	3	3	4	1	2			**13**
Former executive directors									
John Smith	–	17	15	3	6	3			**44**
Carol Fairweather	–	8	12	3	2	2			**27**
Non-executive directors									
Sir John Peace	–						2	1	**3**
Fabiola Arredondo[1]	10						80	54	**144**
Philip Bowman[1]	6						17	13	**36**
Ian Carter[1]	12						67	55	**134**
Jeremy Darroch	–						–	–	**–**
Stephanie George[1]	10						58	38	**106**
Matthew Key	–						2	1	**3**
Dame Carolyn McCall	–						2	1	**3**

Notes:
1 Cash allowances for Fabiola Arredondo, Philip Bowman, Ian Carter and Stephanie George are attendance allowances of £2,000 for each meeting attended outside of their country of residence.
2 The reimbursement of certain expenses incurred by non-executive directors in the performance of their duties is deemed by HM Revenue & Customs to be subject to UK Income Tax. The tables above include figures for 'Benefits/allowances', including costs in respect of air travel and other incidental costs incurred in attending regular Board and Committee meetings. Any tax liabilities arising on the reimbursement of these costs will be settled by the Company. Amounts disclosed have been estimated and have been 'grossed up' at a tax rate of 45%. Note that expenses for Fabiola Arredondo, Ian Carter and Stephanie George include travel expenses from the USA.

2.2. Salary and pension for 2016/17 (audited)

Christopher Bailey did not receive any increase to his salary for the 2016/17 year and his salary continues to be £1,100,000. Julie Brown's salary from the date of appointment was £700,000. Carol Fairweather's salary was £500,000 for the full year (£399,000 of this was for the period during which she served as a director, as shown in the table on page 97) and John Smith's salary was £592,000.

Each executive director receives an annual pension contribution or allowance equal to 30% of base salary. No director has a prospective entitlement to receive a defined benefit pension.

2.3. Annual bonus outcomes 2016/17 (audited)

The maximum annual bonus opportunity for 2016/17 was 200% of salary for the Chief Creative and Chief Executive Officer and 150% of salary for other directors. Annual bonuses were based on Adjusted PBT (which includes adjustments for fragrance and beauty licence intangible asset charges, costs associated with the transfer of the Beauty operations, restructuring costs, China put option liability finance charge, and BME deferred consideration charges as set out in the Group Financial Review on pages 56 and 57). As set out in letters from the Chief Creative and Chief Executive Officer and the Chairman, 2016/17 continued to be a challenging year for the luxury sector and for the Company. Against this uncertain background, and reflecting the plans for accelerating our productivity and efficiency agenda, the Committee set a realistically stretching target for Adjusted PBT of £334m for the 2016/17 annual bonus, with threshold level of performance at £320m and maximum at £366m (all at 2015/16 exchange rates). Whilst the 2016/17 Adjusted PBT outcome of £332m (at 2015/16 exchange rates; £462m at reported rates) is above threshold, Christopher Bailey decided that he did not wish to be considered for any bonus in respect of 2016/17 in light of the underlying financial performance of the business for the year. The Committee considered his decision and deemed it to be appropriate. His bonus payment for 2016/17 will therefore be nil. The Committee also determined that Carol Fairweather and John Smith would receive their bonuses as previously agreed. Julie Brown was not eligible to receive a bonus for her period of service during the year.

The table below sets out the targets and actual performance for 2016/17. As a result of the restructure of the leadership team, Carol will be treated as a good leaver for the 2016/17 annual bonus. As John remained in employment and committed to business performance for the full 2016/17 financial year, the Committee determined that he would receive an annual bonus based on the Adjusted PBT performance outcome.

Annual bonus for 2016/17	Maximum bonus opportunity (% of salary)	2016/17 Adjusted PBT target (£m)	Level of 2016/17 Adjusted PBT achieved* (£m)	2016/17 bonus payment (% of maximum)	2016/17 bonus payment (% of salary)	2016/17 bonus payment (£'000)
Christopher Bailey	200%	Threshold: 320			0%	£0
Carol Fairweather	150%	Target: 334	332	46%	69%	£275
John Smith	150%	Maximum: 366			69%	£408

* The bonus outcome is calculated using the average exchange rates of the 2015/16 financial year. The level of Adjusted PBT achieved for bonus purposes is therefore lower than the reported 2016/17 Adjusted PBT (at £462m) to reflect constant exchange rates.

2.4. Co-Investment Plan outcomes for 2016/17 (audited)

In June 2014, Christopher Bailey, Carol Fairweather and John Smith were granted Co-Investment Plan ('CIP') matching awards as detailed in the table below. As for the annual bonus, Carol is a good leaver, in-line with the rules of the plan, and John is eligible to receive any awards vesting before his leave date on 12 June 2017.

Vesting of 2014 CIP awards was subject to performance from 1 April 2014 to 31 March 2017, as follows:
- 25% of awards vest if growth in Adjusted PBT is 5% per annum over three years
- 100% vest if Adjusted PBT growth is equal to or exceeds 10% per annum over three years

The vesting outcome based on three-year Adjusted PBT growth is calculated using constant exchange rates. On this basis, Adjusted PBT declined over the three-year period to 31 March 2017, which is below the threshold growth required of 5% p.a. and none of the awards will vest, as set out in the table below.

CIP outcomes for 2016/17	2014 CIP award (no. of matching shares)	2014 CIP Adjusted PBT growth targets over three years (p.a.)	Level of Adjusted PBT growth achieved over three years#	2016/17 CIP vesting (% of maximum)	2016/17 CIP vesting (£'000)
Christopher Bailey	147,491	Threshold: 5%	Decline in PBT	0%	£0
Carol Fairweather	30,545	Maximum: 10%		0%	£0
John Smith	43,367			0%	£0

The CIP outcome is calculated using the average exchange rates of the year on which the targets were based, as set out in the performance condition to awards (at the start of the performance period).

2.5. Restricted Share Plan outcomes for 2016/17 (audited)

In June 2014, Christopher Bailey, Carol Fairweather and John Smith were awarded Restricted Share Plan ('RSP') awards as detailed in the table below. As for the CIP, Carol is a good leaver, in-line with the rules of the plan, and John is eligible to receive any awards vesting before his leave date. Vesting of 2014 RSP awards was subject to performance from 1 April 2014 to 31 March 2017, as detailed below. On this basis, Adjusted PBT declined over the three-year period to 31 March 2017, which is below the threshold growth required of 5% p.a. and none of the PBT element (50%) of these awards will vest. The remaining 50% of 2014 RSP awards based on TSR relative to our peers will vest at 38.5%, as detailed in the following table.

RSP outcomes for 2016/17	2014 RSP award (no. of shares)	Performance measure	Vesting schedule	Level of performance achieved over three years#	2016/17 RSP vesting (% of maximum)	2016/17 RSP vesting (£'000)
Christopher Bailey	74,610	Growth in Adjusted PBT over three years (50%)	25% for 5% p.a. 100% for 15% p.a. or above	Decline in PBT	19.25%	£240
Carol Fairweather	50,870				19.25%	£153
		TSR vs. sector peers over three years (50%)	25% for median 100% for upper quartile or above	TSR outcome* of above median, resulting in vesting of 38.5% of the TSR element		
John Smith	40,154				19.25%	£129

\# The RSP outcome is calculated using the average exchange rates of the year on which the targets were based, as set out in the performance condition to awards (at the start of the performance period).

* The vesting outcome based on TSR is calculated by Willis Towers Watson. The TSR peer group for the 2014 awards comprised: Coach, Compagnie Financière Richemont, Estée Lauder, Fossil, Geox, Hermès International, Hugo Boss, Inditex, Kate Spade, Kering, Luxottica Group, LVMH Moët Hennessy Louis Vuitton, Nike, Nordstrom, Polo Ralph Lauren, Swatch, Tiffany & Co, and Tod's.

2.6. Christopher Bailey's 2014 exceptional performance-based award – first tranche outcome (audited)

As reported in previous years, Christopher Bailey was granted an exceptional performance-based award of 500,000 shares in June 2014, on his appointment to Chief Creative and Chief Executive Officer. Vesting of the award is phased over five years, subject to the extent that the performance criteria set out below have been met, measured from the date of grant to the relevant vesting date:

- the strategic development of the business measured against the strategic plan approved by the Board from time to time;
- the Company's financial performance, in assessing which, the Remuneration Committee will have reference to the profit before tax condition applied to awards made in 2014 under the Burberry Group CIP. This performance condition requires growth in Adjusted PBT over three years of between 5% at threshold and 10% p.a. at maximum;
- the personal contribution made by Christopher Bailey;
- the shareholder value delivered in the context of the evolution of the luxury goods markets in which Burberry operated over the period between the date of grant and the relevant vesting date; and
- any other performance factors which are appropriate in assessing the extent of vesting having regard to the interests of shareholders.

The first tranche (up to 125,000 shares) is due to vest on 31 July 2017. The remaining shares are due to vest as follows: up to 125,000 shares on 31 July 2018 and up to 250,000 shares on 31 July 2019.

The Committee assesses progress towards achieving the objectives each financial year, and prior to each vesting date determines the extent to which the objectives were achieved over the three, four or five-year performance period, having regard to the level of performance achieved in each relevant financial year.

At the end of 2016/17 the Committee again reviewed performance against the key performance criteria as set out below.

Strategic development
In May 2016 Burberry outlined its plans to accelerate its productivity and efficiency agenda, including a programme of action to deliver significant cost savings. These plans were built into the five key strategies. During the year the strategies have been embedded into the business and significant progress has been made against all of the objectives. Pages 33 to 46 of the strategic report cover in detail what has been achieved during 2016/17 and the early results of this multi-year programme give us real confidence for the future.

Financial performance
Adjusted PBT of £462m (down 21% underlying) was generated in 2016/17. This performance was in part impacted by actions to elevate the brand, including the rationalisation of distribution in several major markets (including Beauty) and also the benefits of the strategic cost saving programme. This is below the level of the CIP performance condition threshold of 5% growth.

Additionally, revenue of £2.8bn (down 2% underlying) was delivered with retail outperforming at up 3% overall, negatively impacted by a substantial decline in US wholesale as actions were undertaken to reposition the brand and also by the planned licence expiry in Japan.

Personal contribution
Christopher has continued to drive the business through this transitional period, whilst evolving the key strategies. He has ensured the senior executive team continued to be focussed on both the delivery of the key strategies and the management of the business in a challenging economic climate. Christopher has also overseen significant change across the senior team and has embedded new executives and retained existing talent.

Shareholder value
The share price has increased by 16% since Christopher's appointment to Chief Creative and Chief Executive Officer on 1 May 2014 to 31 March 2017 and dividends for 2016/17 are 38.9p per share. This is an increase of 5% on 2015/16.

Overall Total Shareholder Return ('TSR') for Burberry for the three years to 31 March 2017 is 31.9% (as confirmed by Willis Towers Watson), which compares to an average TSR of 23.8% for our core luxury peers* and 24.3% for the FTSE 100.

* Boss, Coach, Ferragamo, Hermes, Kering, LVMH, Prada, Ralph Lauren, Richemont, Swatch, Tiffany, Tod's.

The Committee considered Christopher's performance across all of the performance criteria and recognised Christopher's personal contribution to the delivery of the five key strategies. Balancing this against the overall financial performance of the Company which is below the CIP target, the Committee considered that a 50% performance achievement for 2016/17 was appropriate.

The outcomes for each year to date are as follows (as a % of maximum): 2014/15: 85%; 2015/16: 50%; 2016/17: 50%. This level of achievement in the final year of the first tranche therefore results in an overall vesting outcome of 61.7% and so 77,084 shares of a potential 125,000 shares will vest on 31 July 2017.

2.7. Christopher Bailey's 2013 exceptional award – vesting of first and second tranches

Before he was appointed to the Board, Christopher Bailey was granted an exceptional share award of 1,000,000 shares. As set out in the 2015/16 remuneration report, Christopher deferred the vesting of the first tranche of his award from July 2016 to July 2017. The Committee have reviewed the appropriateness of any vesting in 2017 and it has been agreed that both the first and second tranches of shares, totalling 600,000 shares, will vest in July 2017.

Note: These shares do not appear in the 2016/17 single figure of total remuneration table on page 97 as they were awarded to Christopher prior to his appointment to the Board and are not subject to performance.

2.8. Change in the Chief Creative and Chief Executive Officer's remuneration relative to all employees

The table below sets out the year-on-year change (2016/17 vs. 2015/16) in Christopher Bailey's base salary, benefits and bonus received and in the salary, benefits and annual bonus received for a comparator group of UK-based employees is also shown.

		Salary	Benefits	Bonus
Chief Creative and Chief Executive Officer	Year-on-year change (%)	0%	0%	0%
Employees*	Year-on-year change (%)	2.0%	0%	+100%

* The comparator group includes all employees in corporate roles based in the UK. This group has been chosen as these employees most closely reflect the economic environment in which the Chief Creative and Chief Executive Officer operates. For the comparator group of employees, the salary and bonus year-on-year changes include the annual salary review but exclude any additional changes made in the year, for example on promotion. In 2016/17, the bonus outturn based on Adjusted PBT performance was 46% of maximum, compared to 0% of maximum in 2015/16. The 0% increase for benefits for the comparator group of employees reflects no change to benefits policies or levels during the year. It does not reflect any changes to the level of benefits an individual may have received as a result of a change in role, for example on promotion. A meaningful year-on-year change for benefits and bonus for all Group employees cannot be provided due to the variation in structure of these pay elements across roles and regions.

2.9. Relative importance of spend on pay for 2016/17

The table below sets out the total payroll costs for all employees over 2016/17 compared to total dividends payable for the year.

Relative importance of spend on pay		2016/17	2015/16
Dividends paid during the year (total)	£m	164.4	157.7
	% change	4.2%	
Amounts paid to buy back shares during the year	£m	97.2	nil
	% change	+100%	
Payroll costs for all employees*	£m	494.4	427.5
	% change	15.6%	
Average number of full-time equivalent employees		9,828	10,181
	% change	-3.5%	

* Employee costs for the year ended 31 March 2016 have been re-presented to include employee costs recognised within cost of sales.

3. Outstanding share interests

The information set out in this section has been subject to external audit where indicated.

3.1. Conditional share awards granted in 2016/17 (audited)

The table below summarises the long-term conditional share awards granted to directors during 2016/17.

As set out in our Directors' Remuneration Report 2015/16, the Company delayed the grant of the 2016 ESP awards while the initiatives to deliver productivity and efficiency improvements (announced in May 2016) were first being implemented. This was to ensure that the ESP performance targets were properly aligned with Burberry's updated strategic goals. The targets set recognised that 2016/17 year was a transitional year for the Company and senior team and addressed the business need to retain and motivate talent during this critical period. Although lower in absolute terms than those set in prior years, the Committee is satisfied that the targets set for the 2016 ESP awards are stretching, requiring a demanding level of performance, and are closely linked to our performance goals and aligned with long-term value creation for shareholders.

Summary of conditional share awards granted in 2016/17

Type of award	Performance measure	Vesting schedule	Performance period end	Director	Basis of award	Number of shares awarded	Face value at grant[2]
ESP share awards[1]	Growth in Revenue over three years[4] (25%)	25% for 1.0% p.a. 100% for 5.5% p.a. or above	31/3/2018	Christopher Bailey	325% of salary	215,318	£3,575,000
				Julie Brown	300% of salary	126,480	£2,100,000
				Carol Fairweather[3]	250% of salary	75,286	£1,250,000
	Growth in Adjusted PBT over three years (50%)	25% for 1.0% p.a. 100% for 6.0% p.a. or above					
	Adjusted Retail/ Wholesale Return on Invested Capital (25%)	25% for 13.9% 100% for 15.2% or above					

1 The ESP shares were granted on 30 January 2017 and will vest 50% after three years and 50% after four years from grant date, subject to the performance conditions outlined above.
2 The face value of each award has been calculated using the three-day average price prior to the date of grant (£16.6033). As receipt of these is conditional on performance, the actual value of these awards may be nil. Vesting outcomes will be disclosed in the 2019/20 remuneration report.
3 Carol Fairweather received an ESP award in line with Policy to recognise her significant contribution to the business during the year. She is a good leaver and any vesting based on performance will be pro-rated for Carol's service during the performance period.
4 On 3 April 2017, it was announced that Burberry had entered into an agreement with Coty Inc under which they acquire the exclusive long-term global license rights for Burberry Beauty luxury fragrances, cosmetics and skincare. For the purpose of assessing Revenue growth performance for the ESP awards already granted, as well as awards to be granted in 2017, revenue for the 'base year' has been re-calculated on the assumption that this agreement had applied in that year to ensure revenue growth is being calculated on a like-for-like basis with the way targets have been set.

3.2. Further information on conditional share awards granted in 2016/17 (audited)

Growth in Adjusted PBT and revenue

The vesting outcomes based on each of three-year revenue and three-year Adjusted PBT growth are calculated using revenue and Adjusted PBT as disclosed in the annual accounts, subject to any adjustments (down or up) made by the Committee to reflect constant exchange rates and any other items deemed to be outside of management's control.

Adjusted retail/wholesale Return on Invested Capital ('ROIC')

Adjusted retail/wholesale ROIC measures the efficient use of capital to ensure that returns on future investment are attractive. Group ROIC includes the contribution from the high-return licensing business. Given the licensing business is not capital intensive, ROIC will continue to be measured on Burberry's retail/wholesale business only.

Retail/wholesale ROIC, for the purposes of the ESP performance measure, is calculated as the retail/wholesale post-tax adjusted operating profit divided by the average retail/wholesale operating assets, measured over the three year period, on a reported currency basis. A calculation of adjusted retail/wholesale ROIC is included in the five-year summary on page 178.

3.3. Total interests in shares (audited)

The table below summarises the total interests of the directors in ordinary shares of Burberry Group plc as at 31 March 2017. There have been no changes in the period up to and including 17 May 2017. These include beneficial and conditional interests and the interests of their connected persons in shares.

Director	Type of award	Date of grant	Conditional (with performance)	Conditional (continued employment)	Unconditional but unexercised	Number of shares owned	Total
Christopher Bailey	RSP[1]	12-Jun-14	74,610	–	–		
	CIP[2]	12-Jun-14	147,491	–	–		
	ESP[3]	22-Jul-15	241,581	–	–		
	ESP[3]	30-Jan-17	215,318				
	NCO[4]	14-Jun-13	–	800,000	200,000		
	NCO[4]	12-Jun-14	500,000	–	–		
	SAYE	20-Jun-13	–	1,229	–		
	SAYE	18-Jul-15	–	1,099	–		
	SIP	20-Aug-04	–	–	800		
	Total		**1,179,000**	**802,328**	**200,800**	**557,615**	**2,739,743**
Julie Brown	ESP[3]	30-Jan-17	126,480	–	–		
	NCO	30-Jan-17	–	215,000	–		
	NCO	30-Jan-17	–	25,000	–		
	Total		**126,480**	**240,000**	**–**	**–**	**366,480**
Sir John Peace			–	–	–	**195,738**	**195,738**
Fabiola Arredondo			–	–	–	**7,500**	**7,500**
Philip Bowman			–	–	–	**75,000**	**75,000**
Ian Carter			–	–	–	**36,860**	**36,860**
Jeremy Darroch			–	–	–	**1,000**	**1,000**
Stephanie George			**–**	**–**	**–**	**41,600**	**41,600**
Matthew Key			–	–	–	**2,420**	**2,420**
Dame Carolyn McCall			–	–	–	**2,542**	**2,542**
Former directors							
John Smith[5]	RSP[1]	12-Jun-14	40,154	–	–		
	CIP[2]	12-Jun-14	43,367	–	–		
	ESP[3]	22-Jul-15	92,867	–	–		
	SAYE	20-Jun-14	–	740	–		
	Total		**176,388**	**740**	**–**	**36,972**	**214,100**
Carol Fairweather[6]	RSP[1]	12-Jun-14	50,870	–	–		
	CIP[2]	12-Jun-14	30,545	–	–		
	ESP[3]	22-Jul-15	78,435	–	–		
	ESP[3]	30-Jan-17	75,286	–	–		
	SAYE	18-Jul-15	–	659	–		
	Total		**235,136**	**659**	**–**	**33,982**	**269,777**

1 RSP awards are awarded as nil-cost options and are subject to the performance conditions as outlined on page 100, and vest 50% after three years, 25% after four years and 25% after five years from date of grant.
2 CIP awards are awarded as nil-cost options and are subject to the performance conditions as outlined on page 99, and vest 100% after three years from date of grant.
3 ESP awards are awarded as nil-cost options. The awards granted in 2017 are subject to the performance conditions as outlined on page 103. The awards granted in 2015 are subject to the following performance conditions: 25% on 3-year revenue growth of between 3% and 11% p.a., 50% on 3-year growth in Adjusted PBT of between 3% and 11% p.a., 25% on 3-year average ROIC of between 15.3% and 17.8%.
ESP awards vest 50% after three years and 50% after four years from date of grant.
4 'NCO' denotes a Nil-Cost Option award. Further details of the 2013 and 2014 NCO awards are provided on pages 100 to 102.
5 John Smith exercised the following awards during the year: 737 shares under Sharesave Scheme (granted 20 June 2013). The market value of Burberry shares on the date of release (7 March 2017) was 1765p.
6 Carol Fairweather exercised the following awards during the year: 737 shares under Sharesave Scheme (granted 20 June 2013). The market value of Burberry shares on the date of release (24 January 2017) was 1647p.

Shareholding guidelines
To further align the senior executive team with the interests of shareholders, we have increased the minimum shareholding requirement for executive directors, other than Christopher Bailey whose guideline is already significant, as set out in the introductory letter. The guidelines are now set at the following levels:

- 500,000 shares for Christopher Bailey
- three times base salary for other executive directors
- one times base salary for other senior executives
- the Chairman and non-executive directors are expected to hold shares with a market value of £6,000 for each year of their appointment.

There is no specific timeline in which shareholding guidelines must be achieved, however there is an expectation for executives to make annual progress towards their guideline, regardless of any annual bonus paid or shares vesting. Only shares that are owned outright count towards the shareholding requirement. The shareholding guidelines are applicable whilst executive directors and senior executives are employed by Burberry.

As at 31 March 2017, Christopher Bailey owned 557,615 shares with a value of c. 8.5 times salary based on the share price at 31 March 2017 and has therefore achieved his shareholding guideline. As at 31 March 2017, having only joined the Company in January 2017, Julie Brown did not own any Burberry shares, however, Julie will invest 50% of her post tax bonus buy-out award in Burberry shares.

John Smith owned shares based on the share price at 31 March 2017 with a value of £637,397 (108% of his salary). John Smith became an executive director during 2013 and has made progress each year towards his executive shareholding requirement of two times salary. John will be leaving the Company in the summer of 2017.

Carol Fairweather left the Company on 31 March 2017. In view of her pending departure, the Committee agreed that she would be allowed to sell a portion of her shareholding in September 2016 for financial planning purposes. Based on the share price at 31 March 2017, Carol Fairweather owned shares worth 117% of her salary.

As at 31 March 2017, all of the non-executive directors had fulfilled the requirement to hold shares with a market value of £6,000 for each year of their appointment.

This information on the achievement of shareholding guidelines has been audited.

4. Directors' remuneration in 2017/18

The table below summarises how the remuneration policy will be implemented for executive directors in the year 2017/18.

Marco Gobbetti will join the Board and take up his role as Chief Executive Officer on 5 July 2017. The remuneration detailed below is for this Board role and will take effect from this appointment date.

2017/18 annual salaries will be £1,100,000 for Marco Gobbetti and £700,000 for Julie Brown, as detailed in July 2016 when we first announced their appointments. Christopher Bailey was not awarded any increase to his salary for the 2017/18 year and as such his salary continues to be £1,100,000. Maximum bonus and ESP award levels are unchanged from previous years.

4.1. Summary of key remuneration aspects in 2017/18 for executive directors

Element	Performance measure(s)	Director	Maximum level
Base salary	–	Christopher Bailey	£1,100,000 (0% increase)
		Julie Brown	£700,000
		Marco Gobbetti	£1,100,000
Annual bonus	**Annual Adjusted PBT** The Board considers the forward-looking Adjusted PBT bonus targets to be commercially sensitive as they are linked to the Company's financial and strategic plans. Targets will therefore be disclosed retrospectively	Christopher Bailey	200% of salary
		Julie Brown	200% of salary
		Marco Gobbetti	200% of salary
ESP share awards	**3-year growth in Group revenue (25%)**	Christopher Bailey	325% of salary
	3-year growth in Adjusted PBT (50%)	Julie Brown	300% of salary
	Adjusted retail/wholesale ROIC (25%)	Marco Gobbetti	325% of salary
	The performance targets are detailed in section 4.2.		

4.2. Further information on ESP performance measures

Whilst the ESP design has been agreed, the remuneration policy allows a degree of flexibility around a number of the ESP design elements. This flexibility allows the Committee to determine the most appropriate approach to the following parameters ahead of each annual award:

- the weighting of each performance measure (within the specified ranges)
- the definition (and calculation approach) of each performance measure
- the threshold and maximum performance targets for each performance measure.

The Committee is pleased to set out these parameters for the 2017 ESP awards below.

			Performance level (% of maximum vesting)	
ESP performance measure	**Definition**	**Weighting** (% of award)	**Threshold** (15%)	**Maximum** (100%)
Group Revenue	3-year growth, calculated on a constant currency basis	25%	1.0% p.a.	5.5% p.a.
Group Adjusted Profit Before Tax	3-year growth, calculated on a constant currency basis	50%	2.0% p.a.	10.0% p.a.
Adjusted retail/wholesale ROIC	3-year average	25%	16.2%	18.2%

The weightings and measures shall remain unchanged from 2015/16. The performance measures will be calculated on the same basis as for 2016/17 awards (as set out on page 103 of this report). The targets for all three performance measures have been carefully calibrated in light of a number of factors, including the latest Burberry strategic plan, our long-term financial goals, latest three-year projections and broker earnings estimates for Burberry and its competitors. The Committee has set these targets and believes they are stretching, extremely so at the maximum performance level, and will ensure management is incentivised to continue to deliver superior returns to shareholders.

On 3 April 2017, it was announced that Burberry had entered into an agreement with Coty Inc under which they acquire the exclusive long-term global license rights for Burberry Beauty luxury fragrances, cosmetics and skincare. For the purpose of assessing revenue growth performance for the ESP award to be granted in 2017, as well as awards already granted in 2015 and 2016, revenue for the 'base year' has been re-calculated on the assumption that this agreement had applied in that year to ensure revenue growth is being calculated on a like-for-like basis with the way targets have been set.

Subject to performance, ESP awards will vest 50% after three years and 50% after four years (from the date of grant). As set out in the Policy, the Committee also applies an additional holding period on ESP awards granted to executive directors to increase long-term alignment with shareholders. While executives are employed by Burberry, no ESP shares may normally be sold except to cover any tax liabilities arising out of the award until five years from the date of grant.

4.4. Summary of Chairman and Non-Executive Director fees for 2017/18

The table below sets out the fee structure for the Chairman and NEDs for 2017/18.

Summary of Chairman and NED fees for 2016/17	**Fee level £'000**
Chairman[1]	400
Non-executive director	80
Senior Independent Director	20
Audit Committee Chair	35
Remuneration Committee Chair	35
Attendance allowance[2]	2

1 The Chairman is not eligible for committee chairmanship fees or attendance allowances.
2 NEDs receive an attendance allowance for each meeting attended outside of their country of residence.
3 Expenses incurred in the normal course of business are reimbursed and, as these are considered by HMRC to be taxable benefits, the tax due on these will also be met by the Company.

5. Further information on remuneration for new executive directors

5.1. Remuneration for Chief Executive Officer

Marco Gobbetti's 2017/18 remuneration for his role as Chief Executive Officer (from 5 July 2017) is detailed below.

- Salary of £1,100,000 reflecting the experience in the luxury retail sector that will be invaluable to the delivery of our strategy and our ability to deliver long-term sustainable growth
- An annual cash allowance of £80,000 (covering travel, car and clothing), a pension allowance of 30% of salary and other non-cash benefits in accordance with the remuneration policy
- An annual performance-based bonus of up to 200% of salary
- Eligible to participate in the performance-based ESP and a 2017 award will be granted as detailed on page 106. As previously announced, Marco was granted a 2016 award of 325% of salary

Buyout awards

In order to secure Marco Gobbetti's appointment and to allow him to join Burberry at the earliest opportunity, the Committee agreed to buyout awards forfeited on leaving his previous employer. Upon appointment to the Chief Executive Officer role he will be granted nil-cost options with a total value at grant of €4.91m. In determining the value of these awards, the Committee considered historical levels of vesting and performance achieved at that time against the targets at Marco's previous employer and discounted the value of outstanding awards to reflect this. The Committee considers the awards to be granted to be of broadly equivalent value to the awards forfeited. The grant value of these awards will be included in the 2017/18 single figure of remuneration table. The nil-cost options will have no performance conditions and will only vest on the dates detailed below, which reflect the original vesting timeline of Marco's forfeited awards policy, subject to Marco's continued employment.

- Restricted award with value at grant of €4,000,000 – vest 100% in November 2017
- Restricted award with value at grant of €910,000 – vest 33% in July 2017, 33% in October 2018, 17% in October 2019 and 17% in October 2020

5.2. Remuneration for Chief Operating and Financial Officer

Julie Brown's remuneration for her role as Chief Operating and Chief Financial Officer for 2016/17 is detailed below:

- Salary of £700,000, reflecting responsibility for both the Chief Operating Officer and Chief Financial Officer roles
- An annual cash allowance of £30,000 (covering car and clothing), a pension allowance of 30% of salary and other non-cash benefits in accordance with the remuneration policy
- An annual performance-based bonus of up to 200% of salary
- Eligibility to participate in the performance-based ESP and a 2017 award will be granted as detailed on page 106. As previously announced, Julie was granted a 2016 award of 300% of salary.

Buy-out awards

To secure Julie Brown's appointment and to allow her to join Burberry at the earliest opportunity, the Committee agreed to buyout the non-cash and cash incentives forfeited on leaving her previous employer. The grant value of the nil-cost options over 240,000 shares is included in the single figure table under 'Share awards buyout'. In determining the value of these awards, the Committee considered historical levels of vesting and performance achieved at that time against the targets at Julie's previous employer and discounted the value of outstanding awards to reflect this. The Committee considers the awards granted to be of broadly equivalent value to the awards forfeited. This amount was converted into a number of shares at the time Julie's appointment was agreed based on the share prices of Burberry and Julie's previous employer at that time. The nil-cost options have no performance conditions and will only vest on the dates detailed below, which reflect the original vesting timeline of Julie's forfeited awards, subject to Julie's continued employment.

- 215,000 shares – vest 40% on 22 July 2017, 30% on 22 July 2018 and 30% on 22 July 2019
- 25,000 shares – vest 33% on 27 March 2018, 33% on 27 March 2019 and 34% on 27 March 2020

As compensation for her 2016 annual bonus forfeited from her previous employer, Julie also received a cash payment of £550,000. The amount was set by reference to both financial and personal performance at Julie's previous employer at the time of offer at a level equivalent to the target cash bonus opportunity, the performance expectation at Julie's previous employer at that time. This payment was made in April 2017, in line with Julie's joining arrangements, and is also included in the single figure of remuneration table on page 97 under 'Prior company bonus buyout'. Julie will be investing 50% of this bonus, post tax and NI, in Burberry shares.

6. Further information on remuneration of Carol Fairweather (audited)

The single figure of remuneration table (on page 97) details the remuneration Carol Fairweather received for the period of 2016/17 that she served as an executive director. Carol continued to receive her salary, allowances, pension and contractual non-cash benefits up to 31 March 2017. A payment in lieu of notice equal to 12 months' salary, allowances and benefits (including pension allowance) of £675,000 was paid as a lump sum to Carol in April 2017.

As already set out Carol will be treated as a good leaver and as such will receive an annual bonus for 2016/17 of £345,000 for the full year, of which £275,000 is for the period to 18 January 2017 (when she stepped down from the Board) as shown on the table on page 99. Carol's outstanding share awards will also vest on a pro rata basis. As detailed in section 2.4, the performance condition attached to 2014 CIP awards was not met and so Carol's 2014 CIP award will lapse. Also as detailed in section 2.5, 2014 RSP awards will vest at 19.25% of maximum and so 9,792 shares of a total 50,870 shares will vest on 12 June 2017. Carol's outstanding awards under the ESP will vest at the normal vesting dates, subject to the achievement of the relevant performance conditions and time pro-rating. Subject to performance outcomes, Carol will be able to exercise her options and receive a maximum of 26,156 shares from July 2018, a maximum of 26,157 shares from July 2019, a maximum of 12,547 shares from January 2020 and a maximum of 12,548 from January 2021, less any shares sold to cover tax. In respect of the ESP shares that vest, Carol will also receive a cash payment equivalent to the dividends which would have been received on the shares during the vesting period. Carol exercised her options under the 2015 Sharesave scheme on 24 January 2017, as detailed in section 3.

The Committee agreed to make a payment of £5,000 in respect of legal services provided to Carol.

Finally, the Committee determined that until 31 March 2018 (or later, if the Committee so determines), Carol will continue to receive private medical insurance and employee discount, each at a level consistent with those provided to her during the 2016/17 year and other Burberry executive directors.

Carol will not receive any further payments.

7. Further information on remuneration of John Smith (audited)

The single figure of remuneration table (on page 97) details the remuneration John Smith received during 2016/17. John stepped down from the Board on 31 March 2017 and will continue to receive his salary, allowances, pension and contractual non-cash benefits up to his leaving date of 12 June 2017.

John remained an executive director for the full 2016/17 financial year and, to recognise his contribution to the performance of the business for that year, the Committee determined that he would receive an annual bonus, based on Adjusted PBT performance for the 2016/17 year, as shown in the table on page 99.

Under the rules of the CIP and RSP, John remains entitled to receive any awards that vest prior to his leaving date. As detailed in section 2.4, the performance condition attached to 2014 CIP awards was not met and so John's 2014 CIP award will lapse. Also as detailed in section 2.5, 2014 RSP awards will vest at 19.25% of maximum and so 7,729 shares of a total 40,154 shares will vest on 12 June 2017. The three-year performance period was completed on 31 March 2017, prior to John's departure and he remained an executive director for the duration of the period. John's outstanding awards under the 2015 and 2016 ESP awards will lapse in full upon his departure from Burberry, in accordance with the rules of each plan.

John will not receive any other payments.

8. Remuneration Committee in 2016/17

<u>Committee membership</u>

The composition of the Committee was reviewed during the year and the Committee was reduced to four members from 1 February 2017. The following directors served as members of the Committee during the financial year ending 31 March 2017:

Fabiola Arredondo (Chair from 1 August 2016)
Ian Carter (Chair until 31 July 2016)
Philip Bowman
Stephanie George

Jeremy Darroch (until 1 February 2017)
Matthew Key (until 1 February 2017)
Dame Carolyn McCall (until 1 February 2017)

<u>Advisers to the Committee during 2016/17</u>

At the invitation of the Committee, except where their own remuneration was being discussed, the following people attended meetings and provided advice to the Committee: Sir John Peace (Chairman), Christopher Bailey (Chief Creative and Chief Executive Officer), Julie Brown (Chief Operating and Financial Officer), Carol Fairweather (former Chief Financial Officer), John Smith (former Chief Operating Officer), Leanne Wood (Chief People and Corporate Affairs Officer), Louise Baker (Senior Vice President – Reward and Recognition), Anne-Soline Thorndike (former Senior Vice President – Reward and Recognition), Nigel Jones (Vice President – Group Financial Controller) and Catherine Sukmonowski (Company Secretary).

During the 2016/17 financial year, the Committee received external advice from Willis Towers Watson, as detailed in the table below. Willis Towers Watson has been the appointed independent adviser to the Committee since 2011 and was selected at that time following a formal tender process. Willis Towers Watson is a member of the Remuneration Consultants' Group ('RCG'), which is responsible for the development and maintenance of the voluntary Code of Conduct that clearly sets out the role of executive remuneration consultants and the professional standards by which they advise their clients and, as such, the Committee is satisfied that its advice is objective and independent.

Linklaters LLP provided advice to the Committee in relation to compliance with legislation, namely the regulations governing the disclosure of directors' remuneration in the Directors' Remuneration Report.

Deloitte LLP also provided the Committee with advice in connection with executive remuneration as set out below. Deloitte is also a signatory of the RCG Code of Conduct.

External advisers and fees

Advisers	Services provided to the Committee	Other services provided to the Company	Fees for Committee assistance
Willis Towers Watson ('WTW')	Appointed by the Committee to provide advice on the ongoing operation of employee and executive share plans together with advice on executive remuneration	A term of the engagement between the Committee and WTW is that any additional consulting services provided by WTW to management are reported on a regular basis to the Committee. Where an actual or potential conflict may occur, such work is agreed by the Chair of the Committee prior to commencement.	£184,311 Fees charged on a time and expense basis
		WTW provides market benchmarking information to management in relation to a small number of roles which fall below the remit of Committee review.	Fees charged on a time and expense basis
Deloitte LLP	Appointed by the Committee to provide advice around the remuneration policy for 2017	During the year Deloitte has also provided other consulting services (such as technology implementation support), tax compliance and advisory and transfer pricing services.	£18,000 Fees charged on a time and expense basis

The Committee is satisfied that the WTW and Deloitte engagement partners and teams which provide remuneration advice to the Committee do not have connections with Burberry that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Remuneration report voting results

The table below shows the results of the remuneration-related shareholder vote from the 2016 AGM and the last Directors' Remuneration Policy vote which took place at the 2014 AGM. As mentioned earlier in this report, the Committee listens to and takes into consideration investor views throughout the year, and was extremely pleased to receive majority support for the advisory vote on the 2015/16 Directors' Remuneration Report.

As detailed in the introductory letter from the Committee, the Company has consulted with its largest shareholders during the year regarding 2016 ESP awards (in particular the performance measure targets) and the 2017 remuneration policy.

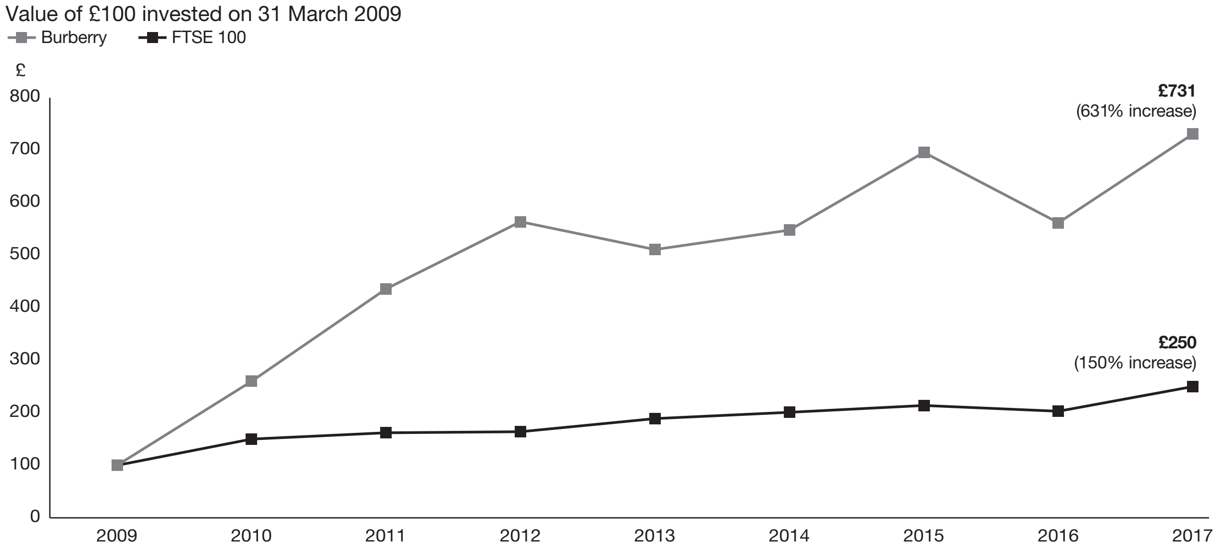
AGM voting results

Vote	Votes for	Votes against	Votes withheld	Any issues raised and Company response
2016 AGM: To approve the Directors' Remuneration Report for the year ended 31 March 2016 (advisory)	285,617,407 (89.19%)	34,601,363 (10.81%)	9,242,280	Not applicable
2014 AGM: To approve the Directors' Remuneration Policy	271,305,305 (83.92%)	51,981,069 (16.08%)	11,037,131	Not applicable

9. Eight-year performance graph and Chief Executive Officer remuneration

The following graph shows the TSR for Burberry Group plc compared to the companies in the FTSE 100 index assuming £100 was invested on 31 March 2009. Burberry became a constituent of the FTSE 100 index on 10 September 2009 and prior to that had a market capitalisation close to that of companies at the lower end of the FTSE 100 index. Data is presented on a spot basis and sourced from DataStream.

<u>Eight-year TSR performance graph and Chief Executive Officer remuneration</u>



The table below shows the total remuneration earned by the incumbent Chief Executive Officer over the same eight-year period, along with the percentage of maximum opportunity earned in relation to each type of incentive. The total amounts are based on the same methodology as used for the table on page 97 (Single figure of total remuneration for 2016/17).

Angela Ahrendts (AA, CEO to 30 April 2014), Christopher Bailey (CB, CC and CEO from 1 May 2014)

	2009/10 (AA)	2010/11 (AA)	2011/12 (AA)	2012/13 (AA)	2013/14 (AA)	2014/15 (AA)	2014/15 (CB)	2015/16 (CB)	2016/17 (CB)
Total remuneration (£'000)	7,362	16,003	9,574	10,901	8,007	157	7,508	1,894	3,531
Bonus (% of maximum)	100%	100%	100%	75%	70%	–	81%	0%	0%
CIP (% of maximum)	100%	100%	–	100%	100%	–	75%	0%	0%
RSP (% of maximum)	42.5%	–	100%	–	–	–	–	0%	19.3%
EPP* (% of maximum)	15%	50%	–	–	–	–	–	–	–
Exceptional award** (% of maximum)	–	–	–	–	–	–	–	–	61.7%

* The 'EPP' was the Burberry Exceptional Performance Share Plan, a one-off long-term incentive plan under which performance-based awards were granted in 2007 only. Details of this plan can be found in the relevant historical directors' remuneration reports.

** The 'Exceptional award' for Christopher Bailey relates to vesting of the first tranche of his 2014 exceptional share award, for which 77,084 of a maximum 125,000 shares will vest on 31 July 2017.

Approval

This report has been approved by the Board and signed on its behalf by:

Fabiola R. Arredondo
Chair, Remuneration Committee

17 May 2017

DIRECTORS' REPORT

The directors present their Annual Report and the audited consolidated financial statements of the Company for the year to 31 March 2017.

Strategic Report
Burberry Group plc is required by the Companies Act 2006 to prepare a Strategic Report that includes a fair review of the Company's business, the development and the performance of the Company's business during the year, the position of the Company at the end of the financial year to 31 March 2017 and a description of the principal risks and uncertainties faced by the Company. The following are incorporated by reference and shall be deemed to form part of this Directors' Report:

- the Strategic Report on pages 9 to 65;
- the Board and Governance Report (which includes the Board, the Corporate Governance Report and the Directors' Remuneration Report) on pages 68 to 111; and
- the energy and global greenhouse gas emissions disclosure on page 51.

Other governance disclosures
Revenue and profit
Revenue from the continuing business during the period amounted to £2,766.0m (2016: £2,514.7m). The profit for the year attributable to equity holders of the Company was £286.8m (2016: £309.5m)

Going concern
The going concern statements for the Group and Company are set out on pages 130 and 185 of the financial statements and are incorporated by reference and shall be deemed to be part of this report.

Independent auditors
In accordance with section 418(2) of the Companies Act 2006, each of the Company's directors in office as at the date of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Group's auditors are PricewaterhouseCoopers LLP. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the forthcoming Annual General Meeting. Note 7 of the Financial Statements states the auditors' fees both for audit and non-audit work.

The Independent Auditors' Report starting on page 119 sets out the information contained in the Annual Report which has been audited by them.

Disclosures requires under Listing Rule 9.8.4
The information required by Listing Rule 9.8.4, where applicable, is included in this Directors' Report.

Political donations
The Company made no political donations during the year in line with its policy (2016: £nil). In keeping with the Company's approach in prior years, shareholder approval is being sought at the forthcoming Annual General Meeting, as a precautionary measure, for the Company and its subsidiaries to make donations and/or incur expenditure which may be construed as 'political' by the wide definition of that term included in the relevant legislation. Further details are provided in the Notice of this year's Annual General Meeting.

Financial instruments
The Group's financial risk management objectives and policies are set out within note 25 of the Financial Statements. Note 25 also details the Group's exposure to foreign exchange, share price, interest, credit, capital and liquidity risks. This note is incorporated by reference and deemed to form part of this report.

Annual General Meeting
The Annual General Meeting of the Company will be held at the InterContinental Hotel, One Hamilton Place, Park Lane, London W1J 7QY on Thursday, 13 July 2017. The Notice of this year's Annual General Meeting will be available to view on the Company's website at www.burberryplc.com.

The directors consider that each of the proposed resolutions to be considered at the Annual General Meeting are in the best interests of the Company and its shareholders and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. The directors unanimously recommend that shareholders vote in favour of each of the proposed resolutions, as the directors intend to do in respect of their own shareholdings.

Directors
The names and biographical details of the directors as at the date of this report are set out on pages 68 and 69 and are incorporated by reference into this report.

At the 2017 Annual General Meeting, all of the current directors will offer themselves for election or re-election. The Notice of this year's Annual General Meeting sets out why the Board believes the directors should be elected or re-elected. Details of the directors' service agreements and letters of appointment are given in the Directors' Remuneration Report on pages 87 to 111.

Directors' insurance and indemnities

The Company maintains directors' and officers' liability insurance which gives cover for legal actions brought against its directors and officers. In accordance with section 236 of the Companies Act 2006, qualifying third-party indemnity provisions are in place for the directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. Both the insurance and indemnities applied throughout the financial year ended 31 March 2017 and through to the date of this report.

Directors' share interests

The interests of the directors holding office at 31 March 2017 in the shares of the Company are shown within the Directors' Remuneration Report on page 105. There were no changes to the beneficial interests of the directors between the period 31 March 2017 and 17 May 2017.

Dividends

The directors recommend that a final dividend of 28.4p per ordinary share (2016: 26.8p) in respect of the year to 31 March 2017 be paid on 4 August 2017 to those persons on the Register of Members as at 7 July 2017.

An interim dividend of 10.5p per ordinary share was paid to shareholders on 27 January 2017 (2016: 10.2p). This will make a total dividend of 38.9p per ordinary share in respect of the financial year to 31 March 2017. The aggregate dividends paid and recommended in respect of the year to 31 March 2017 total £169.4m (2016: £163.7m).

Substantial shareholdings

As at 31 March 2017, the Company had been notified under Rule 5 of the Disclosure and Transparency Rules of the following major interests in its issued ordinary share capital:

	Number of ordinary shares	% of total voting rights
BlackRock, Inc.	25,036,087	5.70
Lindsell Train Limited	21,928,267	5.00
FMR LLC	21,867,513	4.98
Schroders plc	21,666,352	4.99
Ameriprise Financial, Inc.	21,664,800	4.97
JP Morgan Chase & Co	21,578,580	4.99
The Capital Group Companies, Inc	20,783,178	4.67
Massachusetts Financial Services Company	20,073,645	4.61
GBL Energy Sarl	13,183,000	3.00

As at 17 May 2017, the Company had not received any further notifications under Rule 5 of the Disclosure and Transparency Rules of major interests in its issued ordinary share capital.

Interests in own shares

Details of the Company's interests in its own shares are set out in note 22 to the financial statements.

Share capital

Details of the issued share capital, together with details of movements in the issued share capital of Burberry Group plc during the year are shown in note 22 which is incorporated by reference and deemed to be part of this report.

The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The ordinary shares are listed on the Official List and traded on the London Stock Exchange. As at 31 March 2017, the Company had 438,439,160 ordinary shares in issue. The Company held 6,733,905 shares in treasury.

In order to retain maximum flexibility, the Company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2016, to repurchase up to just under 10% of its issued share capital. From July 2016 to April 2017, the Company completed £100 of a £150m announced share buyback. A further share buyback of £300m will be completed in FY 2018, in addition to the £50m already announced. Further details are provided in the Notice of this year's Annual General Meeting which is available on the Company's website at www.burberryplc.com.

At the Annual General Meeting in 2016, shareholders approved resolutions to allot shares up to an aggregate nominal value of £73,430 and to allot shares for cash other than pro rata to existing shareholders. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. There are no specific restrictions on the size of holding or on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights. The directors have no current plans to issue shares other than in connection with employee share schemes.

Details of employee share schemes are set out in note 26. The Burberry Group plc ESOP Trust has waived all dividends payable by the Company in respect of the ordinary shares held by it. In addition, the Burberry Group plc SIP Trust has waived all dividends payable by the Company in respect of the unappropriated ordinary shares held by it. The total dividends waived by the trusts in the year to 31 March 2017 were in aggregate £1.7m (2016: £1.2m).

With regard to the appointment and replacement of directors, the Company follows the UK Corporate Governance Code 2014 and is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

Significant contracts – change of control

Revolving credit facility

Pursuant to the Companies Act 2006, the directors disclose that in the event of a change of control, the Company's borrowings under the Group's £300m revolving credit facility (dated 25 November 2014) could become repayable. Details of the service agreements of the executive directors are set out on page 95 of the Directors' Remuneration Report.

The provisions of the Company's employee share plans may cause options and awards granted under such plans to vest upon a change of control.

Licence agreement

On 3 April 2017, Burberry entered into an exclusive licence agreement with Coty pursuant to which Coty will develop, manufacture, market, distribute and sell Burberry Beauty products. The agreement is anticipated to take effect from October 2017 from which time ongoing royalty payments will be payable to Burberry. The agreement provides that Burberry will receive cash payments of £130m in the second half of FY 2017/18 for the long-term exclusive global licence and related transfer of the Beauty business. Burberry will also receive c. £50m for assets transferring (which is subject to inventory adjustments). Pursuant to the Companies Act 2006, the directors disclose that a change of control of Burberry will, in limited circumstances, result in Coty having a right of termination of the licence agreement.

Employee involvement

Employee communication

The Group believes that employee communication is an important tool to enhance the Company culture and connectivity and to motivate and retain its employees. A global communications programme, incorporating various physical and digital channels, enables all employees to connect and collaborate closely. These channels are used to efficiently communicate the Company's key strategies, financial performance and other matters of interest and importance.

'Burberry World' is the key digital intranet channel used by the Company to communicate to its employees. However, other methods and channels are also used, including face-to-face briefings, open discussion forums with senior management, email and instant messaging. Burberry 'Chat Live' global video broadcasts are hosted by the Chief Creative and Chief Executive Officer and senior management and provide real-time updates to highlight the Group's performance and its ongoing strategic initiatives and projects. The Company also uses videos and digital web pages to communicate key initiatives, events and other brand messages, to enhance internal communication, employee connectivity and the Burberry culture.

Employee share ownership

The Group encourages share ownership at all levels and runs incentive schemes and share ownership schemes for the benefit of employees. Further details of these schemes are set out in the Directors' Remuneration Report on pages 87 to 111.

The Group again intends to grant free share awards or equivalent cash-based awards to all eligible employees during 2017/18. The Group also intends, where possible, to invite eligible employees to take part in the Sharesave Scheme.

Further information regarding the Group's approach to employee involvement and communications is provided in Inspired People on page 44.

Employment policies

Diversity and inclusion

The Group takes a very inclusive approach to diversity. As a global business, Burberry values people of all cultures, nationalities, races, religions and ethnicities, regardless of characteristics such as gender, gender identity and/or expression, age, disability or sexual orientation. Burberry is passionate about attracting, developing and rewarding the most talented and skilled individuals, regardless of background. The Group encourages its employees to work across functions, geographies and cultures to enhance understanding and create a connected global community. As the Group continues to grow globally, it is building on its long-term commitment to diversity and inclusion, embracing the cultures of all the countries where we do business. Burberry is committed to making the necessary adjustments to support the employment of people with disabilities and provide training and development to ensure they have the opportunity to achieve their potential.

Further information regarding the Group's employment policies are provided on the Group's website at www.burberryplc.com.

Health and safety
The Group has a health and safety policy approved by the Board. Governance of the health and safety strategy is maintained through a Global Health and Safety Committee which is chaired by the Chief People and Corporate Affairs Officer. Health and safety is also considered at the Group Risk Committee and Audit Committee. Each region has local committees which assist with the implementation of the health and safety strategy. Strategic direction on health and safety matters is provided by the Senior Manager, Global Health and Safety and is supported by a global team. The Global Health and Safety team aims to visit each location worldwide approximately every three years to provide advice, assistance and support. In addition, occupational health and safety compliance is formally audited in stores every three to five years, dependent on profile, and annually in our Regent Street flagship, our corporate offices and our internal manufacturing and distribution sites.

The Strategic Report (from pages 9 to 65) and Directors' Report (from pages 112 to 115) have been approved by the Board on 17 May 2017.

By order of the Board

Catherine Sukmonowski
Company Secretary

17 May 2017

Burberry Group plc
Registered Office:
Horseferry House
Horseferry Road
London
SW1P 2AW

Registered in England and Wales
Registered number: 03458224

FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report, which includes the Strategic Report; the Directors' Report; the Directors' Remuneration Report; and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework' and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and the Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed on pages 68 to 69 confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

These statements were approved by the Board on 17 May 2017 and signed on its behalf by:

Sir John Peace	**Julie Brown**
Chairman	Chief Operating and Chief Financial Officer

Report on the Group financial statements

Our opinion

In our opinion, Burberry Group plc's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's affairs as at 31 March 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Group Balance Sheet as at 31 March 2017;
- the Group Income Statement and Statement of Comprehensive Income for the year then ended;
- the Group Statement of Changes in Equity for the year then ended;
- the Group Statement of Cash Flows for the year then ended;
- the Analysis of Net Cash as at 31 March 2017; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

Our audit approach

Context

Burberry Group plc is a British global luxury goods manufacturer, retailer and wholesaler listed on the London Stock Exchange. The Group operates globally across over 30 countries. The context for our audit has been set against the Group's structure and strategy as well as the more challenging trading conditions. This was particularly relevant for the work performed on inventory provisioning, impairment of property, plant and equipment and onerous lease provisions.

The area of focus where work was primarily performed by component teams was the assessment of inventory provisioning. The judgements in respect of the completeness and valuation of provisions for tax exposures, impairment of fragrance and beauty licence intangible asset, impairment of property, plant and equipment and onerous lease provisions and presentation of non-GAAP measures are primarily taken at a Group level.

Overview

Materiality	Overall Group materiality: £19 million which represents approximately 5% of profit before taxation (2016: £20 million).
Audit Scope	• Of the Group's 80 reporting units we identified six reporting units which, in our view, require a full scope audit of their financial information, either due to their size or their risk characteristics. • These reporting units are located in the UK, China, Hong Kong and Korea and two are located in the US. We used local teams in these countries to perform those full scope audits relating to the relevant reporting units. • The Group audit team visited reporting units in the UK, US, China and Hong Kong during the course of the year in order to attend local management meetings. Throughout the year, the Group audit team held regular meetings with all reporting units at all stages of the audit to direct and supervise the work of these local teams and to ensure that we had a full and comprehensive understanding of the results of their work – particularly insofar as it related to the identified areas of focus. They also reviewed the working papers for financially significant reporting units. • The six components where we performed full scope audits represented 75% (2016: 76%) of Group revenue and 79% (2016: 89%) of profit before taxation.
Areas of Focus	• Inventory provisioning. • Impairment of property, plant and equipment and onerous lease provisions. • Completeness and valuation of provisions for tax exposures. • Impairment of fragrance and beauty licence intangible asset. • Presentation of results and non-GAAP measures.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Inventory provisioning	
The Group manufactures and sells luxury goods and is subject to changing consumer demands and fashion trends, increasing the level of judgement involved in estimating inventory provisions (inventory as at 31 March 2017: £505.3m; refer to note 16 to the financial statements). Judgement is required to assess the appropriate level of provisioning for items which may be ultimately destroyed or sold below cost as a result of a reduction in consumer demand particularly in light of the current challenging trading conditions and the one label strategy. Such judgements include management's expectations for future sales and inventory liquidation plans.	For both finished goods and raw materials, we critically assessed the basis for the inventory provisions, the consistency of provisioning in line with policy and the rationale for the recording of specific provisions in the context of management's key strategies. In doing so we tested the provision calculations and determined that they appropriately took into account the ageing profile of inventory, the process for identifying specific problem inventory and historical loss rates. As a result, we satisfied ourselves that both finished goods and raw materials inventory provisions have been prepared in line with policy and are supportable on the basis of historical trends as well as management's expectations for future sales and inventory management plans.
Impairment of property, plant and equipment and onerous lease provisions	
The Group has a material operational asset base which may be vulnerable to impairment in the event of trading performance being below expectations. The value-in-use models used to determine the amount of any impairment charge are based on assumptions including revenue forecasts, gross and operating margins, which are store specific, and discount rates, which are country specific (refer to note 13 to the financial statements). Such stores may be located in both emerging markets, which are typically more volatile than developed markets, as well as more established economies such as the US, where the Group is working towards consolidating its position within the market. The same judgements are used in determining whether an onerous lease provision is required and in calculating the appropriate amount of the provision. In addition, judgement is required in assessing whether there are any alternative uses for stores which may affect the amount of onerous lease provision required. Management's assessment resulted in the recognition of a net impairment charge for the year ended 31 March 2017 of £23.0m (2016: £45.3m), including £15.3m (2016: £24.2m) for store impairments and £7.7m (2016: £21.1m) for onerous leases. We focused on this area because of the inherent judgement involved in determining key assumptions such as future sales growth, profit margins and discount rates, and the magnitude of the assets under consideration and the lease obligations.	We tested management's assessment of indicators for both impairment and onerous lease provisions taking into consideration the challenging trading conditions in some territories, and are satisfied that they appropriately took into account internal and external impairment indicators, including the trading performance of each store. We tested the value-in-use models for assets where an impairment trigger or potential requirement for an onerous lease provision has been identified, including challenging management forecasts and other assumptions including discount rates and long term growth rates, and found that these assumptions were reasonable. In particular we focused on the forecasts for sales growth and are satisfied that they reflect reasonable expectations for each store, taking into account the maturity of each store, the market in which it is located and management's specific plans for improving store performance. Given the judgement inherent in the impairment and onerous lease provision calculations, particularly relating to revenue growth assumptions, management has disclosed a sensitivity analysis in the financial statements (refer to note 13 to the financial statements). Having re-performed the sensitivity calculations and considered whether any other sensitivities might be more appropriate, we are satisfied that the financial statements adequately disclose the potential risk of future impairment if the performance of the stores with indicators of impairment do not meet management's expectations.

Key audit matter	How our audit addressed the key audit matter
Completeness and valuation of provisions for tax exposures	
The directors are required to apply significant judgement when determining whether, and how much, to provide in respect of tax assessments leading to uncertain tax positions in a number of jurisdictions (refer to notes 9, 14 and 30 to the financial statements). Given the inherent uncertainty over the outcome of pending tax assessments, significant judgement is applied by the directors in estimating the final outcome of such tax assessments. We focused on this area due to the inherent complexity and judgement in estimating the amount of provision required, which is increased by the number of jurisdictions in which the Group operates. As noted in note 30 to the financial statements, the Group is subject to tax audits and claims in a number of jurisdictions.	Through discussions with management, we understood the Group's process for identifying uncertain tax positions and the related accounting policy for provisioning against tax exposures. Based on this, we assessed the extent to which provisions are supported by underlying circumstances and determined that they are being made on a consistent basis to previous years. We assessed the appropriateness of provisions recorded in the financial statements, or the rationale for not recording a provision, by using our specialist tax knowledge, reading the latest correspondence between the Group and the various tax authorities and advisors, and by obtaining written responses from the Group's external advisors on the material tax exposures. These procedures assisted in our corroboration of management's position in respect of significant tax exposures, and with our assessment that the disclosures and provisions recorded in the financial statements, including whether any provisions sufficiently addressed probable penalties and interest, were appropriate and reflected the latest developments.
Impairment of fragrance and beauty licence intangible asset	
In the year ended 31 March 2013, the Group reacquired the licence to sell fragrance and beauty products, resulting in the recognition of a fragrance and beauty licence intangible of £70.9m, which was being amortised on a straight-line basis over the period 1 April 2013 to 31 December 2017. The licence was fully impaired during the period, resulting in a charge of £18.6m. We have focused on this area due to the size of the fragrance and beauty licence intangible and the inherent judgement involved in forming a valuation of the intangible, and the fact that future sales and profit forecasts for this part of the business were considered to no longer support the recoverability of the asset during the period.	We challenged management's assessment of fragrance and beauty performance by comparing actual results to forecasts. Having compared the Group's future plans and forecasts for these products to actual results and market conditions, we are satisfied that it is appropriate to impair the fragrance and beauty licence intangible. We also considered the related disclosures and are satisfied that the financial statements adequately disclose the impairment.
Presentation of results and non-GAAP measures	
The presentation of results continues to be a focus area for regulators, particularly the use of adjusted and underlying measures to explain business performance, and the classification of items as adjusting, especially where they recur each year. There is a risk that the use of such measures means that the overall presentation of results is not fair, balanced and understandable. In the year ended 31 March 2017 the Group has identified five adjusting items, being the charge relating to the fragrance and beauty licence intangible asset, restructuring costs, revaluation of deferred consideration liability, costs relating to the transfer of the Beauty operations and the put option liability finance charge (refer to note 6 to the financial statements).	We considered management's recognition of adjusting items and the related presentation and accompanying disclosures and are satisfied that the selection of adjusting items is consistent with prior years, in line with management's accounting policies and adequately explained in the financial statements. We noted no instances of inappropriate or inconsistent presentation of results and non-GAAP measures. Specifically, we are satisfied that non-GAAP measures are adequately explained and reconciled to GAAP measures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographical structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group operates across three regions and is structured across two segments, being retail/wholesale and licensing. The financial statements are a consolidation of 80 reporting units, comprising the Group's operating businesses and holding companies across the two segments.

Based on our risk and materiality assessments, we determined which entities were required to report full-scope audit opinions to us having considered the relative significance of each entity to the Group, locations with significant inherent risks and the overall coverage obtained over each material line item in the consolidated financial statements. We identified six reporting units which, in our view, required an audit of their complete financial information, either due to their size or their risk characteristics. These reporting units accounted for 75% (2016: 76%) of Group revenue and 79% (2016: 89%) of Group profit before taxation. Of these, three reporting units have been determined to be financially significant based on their contribution to Group revenue or profit before taxation. This, together with additional procedures performed at the Group level relating primarily to the consolidation, taxation, litigation, impairment and earnings per share, gave us the evidence we needed for our opinion on the financial statements as a whole.

In addition to the audits performed on full-scope components, we gathered other audit evidence across the rest of the Group through testing of the Group's global monitoring controls, Group-level analytical procedures and testing at the London and Hong Kong Shared Service Centres.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We sent detailed instructions to all in scope component audit teams, which included communication of the areas of focus above and other required communications. Our Group engagement team's involvement also included various site visits and component auditor working paper reviews across each of the Group's three regions, together with conference calls with the component audit teams and participation in all in scope component audit clearance meetings.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£19 million (2016: £20 million).
How we determined it	5% of profit before taxation.
Rationale for benchmark applied	Burberry is a profit orientated entity and hence profit before taxation has been selected as the benchmark.
Component materiality	For each component in our audit scope, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3.5 million and £16.0 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 million (2016: £1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the directors' statement, set out on page 130, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting
Consistency of other information
Companies Act 2006 opinion
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Director's Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Director's Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

Information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
The statement given by the directors on page 118, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
The section of the Annual Report on page 83, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

The directors' confirmation on page 61 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
The directors' explanation on page 61 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter
We have reported separately on the company financial statements of Burberry Group plc for the year ended 31 March 2017 and on the information in the Directors' Remuneration Report that is described as having been audited.

Paul Cragg
Senior Statutory Auditor,
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors,
London, 17 May 2017

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Revenue	3	**2,766.0**	2,514.7
Cost of sales		**(832.9)**	(752.0)
Gross profit		**1,933.1**	1,762.7
Net operating expenses	4	**(1,538.8)**	(1,359.8)
Operating profit		**394.3**	402.9
Financing			
Finance income		**5.5**	5.1
Finance expense		**(1.8)**	(2.3)
Other financing (charge)/income		**(3.2)**	9.9
Net finance income	8	**0.5**	12.7
Profit before taxation	5	**394.8**	415.6
Taxation	9	**(107.1)**	(101.0)
Profit for the year		**287.7**	314.6
Attributable to:			
Owners of the Company		**286.8**	309.5
Non-controlling interest		**0.9**	5.1
Profit for the year		**287.7**	314.6

Earnings per share			
Basic	10	**65.3p**	70.0p
Diluted	10	**64.9p**	69.4p

		£m	£m
Reconciliation of adjusted profit before taxation:			
Profit before taxation		**394.8**	415.6
Adjusting items:			
Adjusting operating items	6	**64.4**	14.9
Adjusting financing items	6	**3.2**	(9.9)
Adjusted profit before taxation – non-GAAP measure		**462.4**	420.6
Adjusted earnings per share – non-GAAP measure			
Basic	10	**77.9p**	70.5p
Diluted	10	**77.4p**	69.9p

Dividends per share			
Interim	11	**10.5p**	10.2p
Proposed final (not recognised as a liability at 31 March)	11	**28.4p**	26.8p

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Profit for the year		**287.7**	314.6
Other comprehensive income[1]:			
Cash flow hedges	22	**4.7**	10.8
Net investment hedges		**(2.3)**	(0.8)
Foreign currency translation differences		**103.1**	20.4
Tax on other comprehensive income:			
Cash flow hedges	9	**(1.0)**	(2.2)
Net investment hedges	9	**0.5**	0.6
Foreign currency translation differences	9	**(5.4)**	(1.9)
Other comprehensive income for the year, net of tax		**99.6**	26.9
Total comprehensive income for the year		**387.3**	341.5
Total comprehensive income attributable to:			
Owners of the Company		**384.6**	335.5
Non-controlling interest		**2.7**	6.0
		387.3	341.5

1 All items included in other comprehensive income may subsequently be reclassified to profit and loss in a future period.

	Note	As at 31 March 2017 £m	As at 31 March 2016 £m
ASSETS			
Non-current assets			
Intangible assets	12	**170.1**	189.6
Property, plant and equipment	13	**399.6**	426.2
Investment properties		**2.6**	2.4
Deferred tax assets	14	**125.0**	134.4
Trade and other receivables	15	**76.4**	66.5
Derivative financial assets	17	**1.1**	0.3
		774.8	819.4
Current assets			
Inventories	16	**505.3**	486.7
Trade and other receivables	15	**275.6**	285.4
Derivative financial assets	17	**5.0**	8.0
Income tax receivables		**9.2**	3.0
Cash and cash equivalents	18	**843.5**	711.8
		1,638.6	1,494.9
Total assets		**2,413.4**	2,314.3
LIABILITIES			
Non-current liabilities			
Trade and other payables	19	**(101.9)**	(114.7)
Deferred tax liabilities	14	**(0.4)**	(0.6)
Retirement benefit obligations		**(0.9)**	(0.7)
Provisions for other liabilities and charges	20	**(47.3)**	(38.4)
		(150.5)	(154.4)
Current liabilities			
Bank overdrafts and borrowings	21	**(34.3)**	(51.5)
Derivative financial liabilities	17	**(3.5)**	(2.3)
Trade and other payables	19	**(459.1)**	(387.2)
Provisions for other liabilities and charges	20	**(18.1)**	(17.6)
Income tax liabilities		**(50.1)**	(80.4)
		(565.1)	(539.0)
Total liabilities		**(715.6)**	(693.4)
Net assets		**1,697.8**	1,620.9
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary share capital	22	**0.2**	0.2
Share premium account		**211.4**	209.8
Capital reserve	22	**41.1**	41.1
Hedging reserve	22	**10.0**	8.1
Foreign currency translation reserve	22	**260.8**	164.9
Retained earnings		**1,169.0**	1,140.9
Equity attributable to owners of the Company		**1,692.5**	1,565.0
Non-controlling interest in equity		**5.3**	55.9
Total equity		**1,697.8**	1,620.9

The consolidated financial statements of Burberry Group plc (registered number 03458224) on pages 125 to 176 were approved by the Board on 17 May 2017 and signed on its behalf by:

Sir John Peace
Chairman

Julie Brown
Chief Operating and Chief Financial Officer

	Note	Attributable to owners of the Company Ordinary share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Balance as at 31 March 2015		**0.2**	**207.6**	**192.3**	**1,000.8**	**1,400.9**	**50.6**	**1,451.5**
Profit for the year		–	–	–	309.5	309.5	5.1	314.6
Other comprehensive income:								
Cash flow hedges	22	–	–	10.8	–	10.8	–	10.8
Net investment hedge		–	–	(0.8)	–	(0.8)	–	(0.8)
Foreign currency translation differences		–	–	19.5	–	19.5	0.9	20.4
Tax on other comprehensive income		–	–	(3.5)	–	(3.5)	–	(3.5)
Total comprehensive income for the year		–	–	26.0	309.5	335.5	6.0	341.5
Disposal of subsidiaries		–	–	(6.2)	6.2	–	–	–
Transfer between reserves		–	–	2.0	(2.0)	–	–	–
Transactions with owners:								
Employee share incentive schemes								
Value of share options granted		–	–	–	(0.3)	(0.3)	–	(0.3)
Value of share options transferred to liabilities		–	–	–	(0.2)	(0.2)	–	(0.2)
Tax on share options granted		–	–	–	(4.5)	(4.5)	–	(4.5)
Exercise of share options		–	2.2	–	–	2.2	–	2.2
Purchase of own shares by ESOP trusts		–	–	–	(10.9)	(10.9)	–	(10.9)
Dividends paid in the year		–	–	–	(157.7)	(157.7)	(0.7)	(158.4)
Balance as at 31 March 2016		**0.2**	**209.8**	**214.1**	**1,140.9**	**1,565.0**	**55.9**	**1,620.9**
Profit for the year		–	–	–	286.8	286.8	0.9	287.7
Other comprehensive income:								
Cash flow hedges	22	–	–	4.7	–	4.7	–	4.7
Net investment hedge		–	–	(2.3)	–	(2.3)	–	(2.3)
Foreign currency translation differences		–	–	101.3	–	101.3	1.8	103.1
Tax on other comprehensive income		–	–	(5.9)	–	(5.9)	–	(5.9)
Total comprehensive income for the year		–	–	97.8	286.8	384.6	2.7	387.3
Transactions with owners:								
Employee share incentive schemes								
Value of share options granted		–	–	–	13.1	13.1	–	13.1
Value of share options transferred to liabilities		–	–	–	(0.4)	(0.4)	–	(0.4)
Tax on share options granted		–	–	–	0.9	0.9	–	0.9
Exercise of share options		–	1.6	–	–	1.6	–	1.6
Purchase of own shares								
Share buy-back		–	–	–	(100.5)	(100.5)	–	(100.5)
Held by ESOP trusts		–	–	–	(13.3)	(13.3)	–	(13.3)
Expiry of put option over non-controlling interest	29	–	–	–	51.0	51.0	–	51.0
Acquisition of additional interest in subsidiary	29	–	–	–	(45.1)	(45.1)	(53.2)	(98.3)
Dividends paid in the year		–	–	–	(164.4)	(164.4)	(0.1)	(164.5)
Balance as at 31 March 2017		**0.2**	**211.4**	**311.9**	**1,169.0**	**1,692.5**	**5.3**	**1,697.8**

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Cash flows from operating activities			
Operating profit		**394.3**	402.9
Depreciation		**121.3**	111.9
Amortisation		**30.2**	35.2
Net impairment of intangible assets	12	**33.0**	–
Net impairment of property, plant and equipment	13	**15.9**	26.5
Loss on disposal of property, plant and equipment and intangible assets		**3.5**	1.2
Loss on derivative instruments		**5.6**	3.1
Charge/(credit) in respect of employee share incentive schemes		**13.1**	(0.3)
Payment from settlement of equity swap contracts		**–**	(1.6)
Decrease/(increase) in inventories		**8.4**	(49.3)
Decrease/(increase) in receivables		**19.7**	(31.7)
Increase in payables and provisions		**43.6**	5.1
Cash generated from operating activities		**688.6**	503.0
Interest received		**5.2**	4.8
Interest paid		**(1.5)**	(1.7)
Taxation paid		**(131.6)**	(94.8)
Net cash generated from operating activities		**560.7**	411.3
Cash flows from investing activities			
Purchase of property, plant and equipment		**(71.3)**	(107.3)
Purchase of intangible assets		**(32.8)**	(30.7)
Proceeds from sale of property, plant and equipment		**8.5**	0.5
Net cash outflow from investing activities		**(95.6)**	(137.5)
Cash flows from financing activities			
Dividends paid in the year	11	**(164.4)**	(157.7)
Dividends paid to non-controlling interest		**(0.1)**	(0.7)
Payment to acquire additional interest in subsidiary from non-controlling interest	29	**(68.8)**	–
Issue of ordinary share capital		**1.6**	2.2
Purchase of own shares through share buy-back	22	**(97.2)**	–
Purchase of own shares by ESOP trusts		**(13.3)**	(10.9)
Net cash outflow from financing activities		**(342.2)**	(167.1)
Net increase in cash and cash equivalents		**122.9**	106.7
Effect of exchange rate changes		**26.0**	1.4
Cash and cash equivalents at beginning of year		**660.3**	552.2
Cash and cash equivalents at end of year		**809.2**	660.3

Analysis of Net Cash

	Note	**As at 31 March 2017 £m**	As at 31 March 2016 £m
Cash and cash equivalents as per the Balance Sheet	18	**843.5**	711.8
Bank overdrafts	21	**(34.3)**	(51.5)
Net cash		**809.2**	660.3

1. Basis of preparation

Burberry Group plc and its subsidiaries (the Group) is a global luxury goods manufacturer, retailer and wholesaler. The Group also licences third parties to manufacture and distribute products using the 'Burberry' trade marks. All of the companies which comprise the Group are controlled by Burberry Group plc (the Company) directly or indirectly.

The consolidated financial statements of the Group have been prepared in accordance with the European Union endorsed International Financial Reporting Standards (IFRSs), IFRS Interpretations Committee (IFRS IC) interpretations and parts of the Companies Act 2006 applicable to companies reporting under IFRS. These consolidated financial statements have been prepared under the historical cost convention, except as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss.

Taking into account reasonable possible changes in trading performance, and after making enquiries, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements for the year ended 31 March 2017.

There have been no new standards, amendments or interpretations issued and made effective for the financial period commencing 1 April 2016 that have had a material impact on the financial statements of the Group.

As at 31 March 2017, the following new and revised standards, amendments and interpretations, which may be relevant to the Group's results, were issued but not yet effective:

IFRS 9 Financial instruments

This standard addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the guidance in IAS 39 Financial instruments: Recognition and measurement that relates to the classification and measurement of financial instruments. The new standard:

1. retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through OCI; and fair value through P&L;
2. introduces a forward-looking impairment model based on expected credit losses on financial instruments; and
3. updates hedge accounting requirements, to more closely align the accounting with the risk management activities.

The standard is effective for annual periods beginning on or after 1 January 2018. The most significant impact of adopting this standard is expected to be as a result of the changes to the hedge accounting requirements, whereby cash flow hedges will need to be presented on the balance sheet as part of the carrying value of inventories rather than in equity. The adoption of this element of IFRS 9 is an accounting policy choice but will become a requirement when IFRS 9 Macro Hedging is endorsed by the European Union. The full impact of adopting this new standard is still being assessed and will be quantified closer to the date of adoption.

IFRS 15 Revenue from contracts with customers

This standard deals with revenue recognition and replaces both IAS 18 Revenue and IAS 11 Construction contracts, providing a single revenue standard to be applied across all industries. Under the new standard, revenue is recognised when a customer obtains control of a good or service. IFRS 15 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard is effective for annual periods beginning on or after 1 January 2018. Adopting this new standard may result in a delay in the timing of the recognition of a portion of the Group's revenue however it is not anticipated that this will have a material impact on the overall Group result. There will also be additional disclosure requirements.

IFRS 16 Leases

This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It replaces IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. The most significant changes are in relation to lessee accounting. Under the new standard, the concept of assessing a lease contract as either operating or financing is replaced by a single lessee accounting model. Under this new model, substantially all lease contracts will result in a lessee acquiring a right-to-use asset and obtaining financing. The lessee will be required to recognise a corresponding asset and liability. The asset will be depreciated over the term of the lease and the interest on the financing liability will be charged over the same period. The standard is effective for annual periods beginning on or after 1 January 2019, however it is not currently endorsed by the European Union. Adopting this new standard will result in a fundamental change to the Group's Balance Sheet, with right-to-use assets and accompanying financing liabilities for the Group's retail stores, warehouses and offices being recognised for the first time. The Income Statement will also be impacted, with rent expense relating to operating leases being replaced by a depreciation charge arising from the right-to-use assets and interest charges arising from lease financing. The full impact of these changes is currently being assessed as part of an on-going IFRS 16 implementation project and will be quantified closer to the date of adoption. Refer to note 23 for details of the Group's future minimum lease commitments at 31 March 2017.

Basis of consolidation

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

1. Basis of preparation (continued)

Basis of consolidation (continued)

Subsidiaries are all entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the portion of the reporting period during which the Group had control. Intra-group transactions, balances and unrealised profits on transactions between Group companies are eliminated in preparing the Group financial statements. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For acquisitions of additional interests in subsidiaries from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of interests in subsidiaries to non-controlling interests are also recorded in equity.

Key sources of estimation and judgement

Preparation of the consolidated financial statements in conformity with IFRS requires that management make certain judgements, estimates and assumptions that affect the reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgements at the date of the financial statements, deviate from actual circumstances, the original estimate and assumptions will be updated as appropriate in the period in which the circumstances change.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where the estimates and assumptions applied have a significant risk of causing a material adjustment to the carrying value of assets and liabilities, and where judgements applied have a material impact on the presentation of the Group financial statements, are discussed below. Further details of the Group's accounting policies in relation to these areas are provided in note 2:

Impairment of property, plant and equipment and onerous lease provisions

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or a cash generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates in the period. Where the recoverable amount of the cash generating unit is negative, the need for an onerous lease provision in relation to the committed future minimum lease payments is considered. Refer to note 13 for further details of property, plant and equipment and impairment reviews carried out in the period. Refer to note 20 for further details of onerous lease provisions.

Impairment of the fragrance and beauty licence intangible asset

The fragrance and beauty licence intangible asset is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be fully recoverable. Where a review for impairment is carried out, the recoverable amount of the intangible asset is determined from a value-in-use calculation of the anticipated incremental income earned by the Group as a result of selling Beauty products through retail and wholesale channels rather than under licence. The value-in-use calculation is prepared on the basis of management's assumptions and estimates of the future trading performance of the Beauty product division. Refer to note 12 for further details of the fragrance and beauty licence intangible asset.

Inventory provisioning

The Group manufactures and sells luxury goods and is subject to changing consumer demands and fashion trends. As a result it is necessary to consider the recoverability of the cost of inventories and the associated provisioning required. When calculating inventory provisions, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. Refer to note 16 for further details of the carrying value of inventory.

1. Basis of preparation (continued)

Key sources of estimation and judgement (continued)

Income and deferred taxes

The Group is subject to income taxes in numerous jurisdictions. Given the complexities of transfer pricing and other tax legislation, judgement is required in determining the provision for income taxes in each territory. There are many transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. These are measured using either the Group's single best estimate of a likely outcome or a weighted average approach where appropriate. Where the final outcome of these matters is different from the amounts which were initially recorded, such differences will impact the income tax and deferred tax provisions and assets in the period in which such determination is made. The Group does not currently anticipate a significant risk of material change to the outcomes referred to above over the next financial year. Refer to notes 9, 14 and 30 for further details of income and deferred tax charges and balances and contingent liabilities.

Deferred consideration on the acquisition of the non-controlling interest in Burberry Middle East LLC

On 22 April 2016, the Group entered into an agreement to transfer the economic right to the non-controlling interest in Burberry Middle East LLC to the Group in consideration for fixed and contingent payments to be made to the minority shareholder. Management has applied judgement in assessing the nature of the payments associated with this transaction in order to determine the appropriate accounting treatment. Refer to note 29 for further details of this transaction.

2. Accounting policies

The principal accounting policies of the Group are:

a) Revenue

Revenue, which is stated excluding Value Added Tax and other sales related taxes, is the amount receivable for goods supplied (less returns, trade discounts and allowances) and royalties receivable.

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

b) Segment reporting

As required by IFRS 8 Operating segments, the segmental information presented in the financial statements is reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance, has been identified as the Board of Directors.

The Group has centralised activities for designing, making and sourcing, which ensure a global product offering is sold through retail and wholesale channels worldwide. Resource allocation and performance is assessed across the whole of the retail/wholesale channel globally. Hence the retail/wholesale channel has been determined to be an operating segment.

Licensed products are manufactured and sold by third-party licensees. As a result, this channel is assessed discretely by the Chief Operating Decision Maker and has been determined to be an operating segment.

The Group presents an analysis of its revenue by channel, by product division and by geographical destination.

2. Accounting policies (continued)

c) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Contingent payments are remeasured at fair value through the Income Statement. All transaction costs are expensed to the Income Statement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. Non-controlling interests in subsidiaries are identified separately from the Group's equity, and are initially measured either at fair value or at a value equal to the non-controlling interests' share of the identifiable net assets acquired. The choice of the basis of measurement is an accounting policy choice for each individual business combination. The excess of the cost of acquisition together with the value of any non-controlling interest over the fair value of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Income Statement.

d) Share schemes

The Group operates a number of equity-settled share-based compensation schemes, under which services are received from employees (including executive directors) as consideration for equity instruments of the Company. The cost of the share-based incentives is measured with reference to the fair value of the equity instruments awarded at the date of grant. Appropriate option pricing models, including Black-Scholes and Monte Carlo, are used to determine the fair value of the awards made. The fair value takes into account the impact of any market performance conditions, but the impact of non-market performance conditions is not considered in determining the fair value on the date of grant. Vesting conditions which relate to non-market conditions are allowed for in the assumptions used for the number of options expected to vest. The estimate of the number of options expected to vest is revised at each balance sheet date.

In some circumstances, employees may provide services in advance of the grant date. The grant date fair value is estimated for the purposes of recognising the expense during the period between the service commencement period and the grant date.

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

When options are exercised, they are settled either via issue of new shares in the Company, or through shares held in an Employee Share Option Plan (ESOP) trust, depending on the terms and conditions of the relevant scheme. The proceeds received from the exercises, net of any directly attributable transaction costs, are credited to share capital and share premium accounts.

e) Leases

The Group is both a lessor and lessee of property, plant and equipment. Determining whether an arrangement is or contains a lease is based on the substance of the arrangement. Leases in which substantially all of the risks and rewards incidental to ownership of an asset are transferred to the lessee by the lessor are classified as finance leases. Leases which are not finance leases are classified as operating leases.

Gross rental expenditure/income in respect of operating leases is recognised on a straight-line basis over the term of the leases. Certain rental expenses are determined on the basis of revenue achieved in specific retail locations and are accrued for on that basis.

Amounts paid to/received from the landlord to acquire or transfer the rights to a lease are treated as prepayments/deferred income. Lease incentives, typically rent-free periods and capital contributions, are held on the Balance Sheet in deferred income and non-financial accruals and recognised over the term of the lease.

f) Dividend distributions

Dividend distributions to Burberry Group plc's shareholders are recognised as a liability in the period in which the dividend becomes a committed obligation. Final dividends are recognised when they are approved by the shareholders. Interim dividends are recognised when paid.

2. Accounting policies (continued)

g) Pension costs

Eligible employees participate in defined contribution pension schemes, the principal one being in the UK with its assets held in an independently administered fund. The cost of providing these benefits to participating employees is recognised in the Income Statement as they fall due and comprises the amount of contributions to the schemes.

h) Intangible assets

Goodwill

Goodwill is the excess of the cost of acquisition together with the value of any non-controlling interest, over the fair value of identifiable net assets acquired. Goodwill on acquisition is recorded as an intangible asset. Fair values are attributed to the identifiable assets, liabilities and contingent liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to align the accounting policies of acquired businesses with those of the Group.

Goodwill is assigned an indefinite useful life. Impairment reviews are performed annually, or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses recognised on goodwill are not reversed in future periods.

Trade marks, licences and other intangible assets

The cost of securing and renewing trade marks and licences, and the cost of acquiring other intangible assets, such as key money, is capitalised at purchase price and amortised by equal annual instalments over the period in which benefits are expected to accrue, typically ten years for trade marks, or the term of the lease or licence. The useful life of trade marks and other intangible assets is determined on a case-by-case basis, in accordance with the terms of the underlying agreement and the nature of the asset.

Computer software

The cost of acquiring computer software (including licences and separately identifiable development costs) is capitalised as an intangible asset at purchase price, plus any directly attributable cost of preparing that asset for its intended use. Software costs are amortised on a straight-line basis over their estimated useful lives, which may be up to seven years.

i) Property, plant and equipment

Property, plant and equipment, with the exception of assets in the course of construction, is stated at cost or deemed cost, based on historical revalued amounts prior to the adoption of IFRS, less accumulated depreciation and provision to reflect any impairment in value. Assets in the course of construction are stated at cost less any provision for impairment and transferred to completed assets when substantially all of the activities necessary for the asset to be ready for use have occurred. Cost includes the original purchase price of the asset and costs attributable to bringing the asset to its working condition for its intended use.

Depreciation

Depreciation of property, plant and equipment is calculated to write off the cost or deemed cost, less residual value, of the assets in equal annual instalments over their estimated useful lives at the following rates:

Type of asset	Category of property, plant and equipment	Useful life
Land	Freehold land and buildings	Not depreciated
Freehold buildings	Freehold land and buildings	Up to 50 years
Leaseholds	Leasehold improvements	Over the unexpired term of the lease
Plant and machinery	Fixtures, fittings and equipment	Up to 10 years
Short life leasehold improvements	Fixtures, fittings and equipment	Up to 10 years
Retail fixtures and fittings	Fixtures, fittings and equipment	Up to 5 years
Office fixtures and fittings	Fixtures, fittings and equipment	Up to 5 years
Computer equipment	Fixtures, fittings and equipment	Up to 7 years
Assets in the course of construction	Assets in the course of construction	Not depreciated

Profit/loss on disposal of property, plant and equipment and intangible assets

Profits and losses on the disposal of property, plant and equipment and intangible assets represent the difference between the net proceeds and net book value at the date of sale. Disposals are accounted for when the relevant transaction becomes unconditional.

2. Accounting policies (continued)

j) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, for which an impairment has been previously recognised are reviewed for possible reversal of impairment at each reporting date.

k) Investment properties

Investment properties are freehold properties held to earn rentals and/or for capital appreciation. Investment properties are stated at cost less accumulated depreciation and provision to reflect any impairment in value. Cost includes the original purchase price plus any directly attributable transaction costs. Investment properties are depreciated on a straight-line basis over an estimated useful life of up to 50 years.

l) Discontinued operations and assets classified as held for sale

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale. Discontinued operations are presented on the Income Statement as a separate line and are shown net of tax.

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continued use, and a sale within the next 12 months is considered to be highly probable. Assets classified as held for sale cease to be depreciated and they are stated at the lower of carrying amount and fair value less cost to sell.

m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost consists of all costs of purchase, costs of conversion, design costs and other costs incurred in bringing the inventories to their present location and condition. For inventories relating to the Beauty product division, including raw materials and finished goods, cost is measured using a weighted average method. For all other product divisions, the cost of inventories is determined using a first-in, first-out (FIFO) method, taking account of the fashion seasons for which the inventory was offered. Where necessary, provision is made to reduce cost to no more than net realisable value having regard to the nature and condition of inventory, as well as its anticipated utilisation and saleability.

n) Taxation

Tax expense represents the sum of the tax currently payable and deferred tax charge.

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

Deferred income tax is recognised, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, no deferred tax will be recognised. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

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

2. Accounting policies (continued)

n) Taxation (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entities or different taxable entities where there is an intention to settle the balances on a net basis.

o) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. When the effect of the time value of money is material, provision amounts are calculated based on the present value of the expenditures expected to be required to settle the obligation. The present value is calculated using forward market interest rates as measured at the balance sheet reporting date, which have been adjusted for risks specific to the future obligation.

Property obligations

A provision for the present value of future property reinstatement costs is recognised where there is an obligation to return the leased property to its original condition at the end of an operating lease. Where a leased property is no longer expected to be fully occupied or where the costs exceed the future expected benefits, an onerous lease provision will be recognised for that portion of the lease in excess to the Group's requirements and not fully recovered through sub-leasing, or through value-in-use.

Restructuring costs

Provisions for costs associated with restructuring programmes are recognised when a detailed formal restructuring plan has been approved and communicated. Examples of restructuring-related costs include employee termination payments, contract termination penalties and onerous contract payments.

p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

q) Financial instruments

A financial instrument is initially recognised at fair value on the Balance Sheet when the entity becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flow expire or substantially all risks and rewards of the asset are transferred. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Subsequent to initial recognition, all financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives which are held at fair value and which are classified as held for trading, except where they qualify for hedge accounting. The fair value of the Group's financial assets and liabilities held at amortised cost mostly approximate their carrying amount due to the short maturity of these instruments. Where the fair value of any financial asset or liability held at amortised cost is materially different to the book value, the fair value is disclosed.

2. Accounting policies (continued)

q) Financial instruments (continued)

The Group classifies its instruments in the following categories:

Financial instrument category	Note	Classification	Measurement	Fair value measurement hierarchy[2]
Cash and cash equivalents	18	Loans and receivables	Amortised cost	N/A
Trade and other receivables	15	Loans and receivables	Amortised cost	N/A
Trade and other payables	19	Other financial liabilities	Amortised cost	N/A
Borrowings	21	Other financial liabilities	Amortised cost	N/A
Deferred consideration	19	Other financial liabilities	Fair value through profit and loss	2 / 3
Forward foreign exchange contracts[1]	17	Derivative instrument	Fair value through profit and loss	2
Equity swap contracts	17	Derivative instrument	Fair value through profit and loss	2

1 Cash flow hedge and net investment hedge accounting is applied to the extent it is achievable.

2 The fair value measurement hierarchy is only applicable for financial instruments measured at fair value.

The measurements for financial instruments carried at fair value are categorised into different levels in the fair value hierarchy based on the inputs to the valuation technique used. The different levels are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: includes unobservable inputs for the asset or liability.

Observable inputs are those which are developed using market data, such as publicly available information about actual events or transactions. The Group has an established framework with respect to measurement of fair values, including Level 3 fair values. The Group regularly reviews any significant inputs which are not derived from observable market data and considers, where available, relevant third-party information, to support the conclusion that such valuations meet the requirements of IFRS. The classification level in the fair value hierarchy is also considered periodically. Significant valuation issues are reported to the Audit Committee.

The fair value of forward foreign exchange contracts and equity swap contracts is based on a comparison of the contractual and market rates and, in the case of forward foreign exchange contracts, after discounting using the appropriate yield curve as at the balance sheet date. All Level 2 fair value measurements are calculated using inputs which are based on observable market data.

The fair value of the fixed payment component of deferred consideration is considered to be a Level 2 measurement and is derived using a present value calculation of the remaining fixed payments, discounted using an appropriate risk-free rate. The fair value of the contingent payment component of deferred consideration is considered to be a Level 3 measurement and is derived using a present value calculation, incorporating observable and non-observable inputs. This valuation technique has been adopted as it most closely mirrors the contractual arrangement.

The Group's primary categories of financial instruments are listed below:

Cash and cash equivalents

On the Balance Sheet, cash and cash equivalents comprise cash and short-term deposits with a maturity date of three months or less, held with banks and liquidity funds. In the Statement of Cash Flows, cash and cash equivalents also include bank overdrafts, which are recorded under current liabilities on the Balance Sheet.

2. Accounting policies (continued)

q) Financial instruments (continued)

Trade and other receivables

Trade and other receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the movement in the provision is recognised in the Income Statement.

Trade and other payables

Trade and other payables are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. Payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Borrowings (including overdrafts)

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

Deferred consideration

Deferred consideration is initially recognised at the present value of the expected future payments. It is subsequently remeasured at fair value at each reporting period with the change in fair value relating to changes in expected future payments recorded in the Income Statement as an operating expense or income. Changes in fair value relating to unwinding of discounting to present value are recorded as a financing expense.

Derivative instruments

The Group uses derivative financial instruments to hedge its exposure to fluctuations in foreign exchange rates arising on certain trading transactions. The principal derivative instruments used are forward foreign exchange contracts taken out to hedge highly probable cash flows in relation to future sales, royalty receivables and product purchases. The Group also may designate forward foreign exchange contracts or foreign currency borrowings as a net investment hedge of the assets of overseas subsidiaries.

When hedge accounting is applied, the Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Derivatives are initially recognised at fair value at the trade date and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets and liabilities or a firm commitment (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); (3) hedges of net investment of the assets of overseas subsidiaries (net investment hedges); or (4) classified as held for trading.

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

2. Accounting policies (continued)

q) Financial instruments (continued)

Derivative instruments (continued)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred in other comprehensive income. The gain or loss relating to the ineffective portion of the gain or loss is recognised immediately in the Income Statement. Amounts deferred in other comprehensive income are recycled through the Income Statement in the periods when the hedged item affects the Income Statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement within 'net exchange gain/(loss) on derivatives held for trading'. If a derivative instrument is not designated as a hedge, the subsequent change to the fair value is recognised in the Income Statement within operating expenses or interest depending upon the nature of the instrument.

Where the Group hedges net investments in foreign operations through derivative instruments or foreign currency borrowings, the gains or losses on the effective portion of the change in fair value of derivatives that are designated and qualify as a hedge of a net investment, or the gains or losses on the retranslation of the borrowings are recognised in other comprehensive income and are reclassified to the Income Statement when the foreign operation that is hedged is disposed of.

r) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Sterling which is the Company's functional and the Group's presentation currency.

Transactions in foreign currencies

Transactions denominated in foreign currencies within each entity in the Group are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are held at the year end, are translated into the functional currency at the exchange rate ruling at the balance sheet date (closing rate). Exchange differences on monetary items are recognised in the Income Statement in the period in which they arise, except where these exchange differences form part of a net investment in overseas subsidiaries of the Group, in which case such differences are taken directly to the foreign currency translation reserve.

Translation of the results of overseas businesses

The results of overseas subsidiaries are translated into the Group's presentation currency of Sterling each month at the weighted average exchange rate for the month according to the phasing of the Group's trading results. The weighted average exchange rate is used, as it is considered to approximate the actual exchange rates on the date of the transactions. The assets and liabilities of such undertakings are translated at the closing rates. Differences arising on the retranslation of the opening net investment in subsidiary companies, and on the translation of their results, are taken directly to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

The principal exchange rates used were as follows:

	Average rate		Closing rate	
	Year to 31 March 2017	Year to 31 March 2016	**As at 31 March 2017**	As at 31 March 2016
Euro	**1.19**	1.36	**1.17**	1.26
US Dollar	**1.30**	1.50	**1.25**	1.44
Chinese Yuan Renminbi	**8.73**	9.57	**8.62**	9.29
Hong Kong Dollar	**10.11**	11.67	**9.74**	11.16
Korean Won	**1,487**	1,740	**1,402**	1,640

The average exchange rate achieved by the Group on its Yen royalty income, taking into account its use of Yen forward foreign exchange contracts executed on a monthly basis approximately 12 months in advance of royalty receipts, was Yen 159.3: £1 in the year to 31 March 2017 (2016: Yen 177.1: £1).

2. Accounting policies (continued)

s) Adjusted profit before taxation

In order to provide additional consideration of the underlying performance of the Group's ongoing business, the Group's results include a presentation of Adjusted profit before taxation ('adjusted PBT'). Adjusted PBT is defined as profit before taxation and before adjusting items. Adjusting items are those items which, in the opinion of the directors, should be excluded in order to provide a consistent and comparable view of the performance of the Group's ongoing business. Generally this will include those items that are largely one-off and material in nature as well as income or expenses relating to acquisitions or disposals of businesses or other transactions of a similar nature, including the impact of changes in fair value of expected future payments or receipts relating to these transactions. Adjusting items are identified and presented on a consistent basis each year and a reconciliation of adjusted PBT to profit before tax is included in the financial statements. Adjusting items and their related tax impacts are added back to/deducted from profit attributable to owners of the Company to arrive at adjusted earnings per share. Refer to note 6 for further details of adjusting items.

3. Segmental analysis

The Chief Operating Decision Maker has been identified as the Board of Directors. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports used by the Board. The Board considers the Group's business through its two channels to market, being retail/wholesale and licensing.

Retail/wholesale revenues are generated by the sale of luxury goods through Burberry mainline stores, concessions, outlets and digital commerce as well as Burberry franchisees, prestige department stores globally and multi-brand specialty accounts. The flow of global product between retail and wholesale channels and across our regions is monitored and optimised at a corporate level and implemented via the Group's inventory hubs situated in Asia, Europe and the USA.

Licensing revenues are generated through the receipt of royalties from global licensees of eyewear, timepieces and European childrenswear, and from licences relating to the use of non-Burberry trade marks in Japan.

The Board assesses channel performance based on a measure of adjusted operating profit. This measurement basis excludes the effects of adjusting items. The measure of earnings for each operating segment that is reviewed by the Board includes an allocation of corporate and central costs. Interest income and charges are not included in the result for each operating segment that is reviewed by the Board.

	Retail/Wholesale		Licensing		Total	
	Year to 31 March 2017 £m	Year to 31 March 2016 £m	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Retail	**2,127.2**	1,837.7	**–**	–	**2,127.2**	1,837.7
Wholesale	**613.9**	634.6	**–**	–	**613.9**	634.6
Licensing	**–**	–	**27.1**	44.7	**27.1**	44.7
Total segment revenue	**2,741.1**	2,472.3	**27.1**	44.7	**2,768.2**	2,517.0
Inter-segment revenue[1]	**–**	–	**(2.2)**	(2.3)	**(2.2)**	(2.3)
Revenue from external customers	**2,741.1**	2,472.3	**24.9**	42.4	**2,766.0**	2,514.7
Depreciation and amortisation[2]	**144.0**	132.2	**–**	–	**144.0**	132.2
Net impairment of intangible assets[3]	**7.1**	–	**–**	–	**7.1**	–
Net impairment of property, plant and equipment	**15.9**	26.5	**–**	–	**15.9**	26.5
Other non-cash items:						
Share-based payments	**13.1**	(0.3)	**–**	–	**13.1**	(0.3)
Adjusted operating profit	**437.0**	380.9	**21.7**	36.9	**458.7**	417.8
Adjusting items[4]					**(67.6)**	(5.0)
Finance income					**5.5**	5.1
Finance expense					**(1.8)**	(2.3)
Profit before taxation					**394.8**	415.6

1 Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would be available to unrelated third parties.

2 Amortisation of £7.5m (2016: £14.9m) relating to the fragrance and beauty licence intangible asset is presented as an adjusting item and excluded from the segmental analysis.

3 Impairment of £18.6m (2016: £nil) relating to the fragrance and beauty licence intangible asset and impairment of £7.3m (2016: £nil) of software assets specifically relating to the transfer of the Beauty operations are presented as adjusting items and excluded from the segmental analysis.

4 Refer to note 6 for details of adjusting items.

3. Segmental analysis (continued)

Segmental asset analysis

	Retail/Wholesale		Licensing		Total	
	Year to 31 March 2017 £m	Year to 31 March 2016 £m	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Additions to non-current assets	**112.1**	146.2	**–**	–	**112.1**	146.2
Total segment assets	**1,332.5**	1,365.5	**3.6**	3.5	**1,336.1**	1,369.0
Goodwill					**99.6**	88.8
Cash and cash equivalents					**843.5**	711.8
Taxation					**134.2**	137.4
Assets relating to discontinued Spanish operations					**–**	7.3
Total assets per Balance Sheet					**2,413.4**	2,314.3

Additional revenue analysis

Revenue by product division	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Accessories	**1,033.2**	901.7
Womens	**791.9**	729.0
Mens	**623.5**	548.4
Childrens/Other	**108.1**	90.7
Beauty	**184.4**	202.5
Retail/Wholesale	**2,741.1**	2,472.3
Licensing	**24.9**	42.4
Total	**2,766.0**	2,514.7

Revenue by destination	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Asia Pacific	**1,069.0**	932.9
EMEIA[1]	**991.2**	878.5
Americas	**680.9**	660.9
Retail/Wholesale	**2,741.1**	2,472.3
Licensing	**24.9**	42.4
Total	**2,766.0**	2,514.7

1 EMEIA comprises Europe, Middle East, India and Africa.

Entity-wide disclosures

Revenue derived from external customers in the UK totalled £300.9m for the year to 31 March 2017 (2016: £250.2m).

Revenue derived from external customers in foreign countries totalled £2,465.1m for the year to 31 March 2017 (2016: £2,264.5m). This amount includes £576.6m of external revenues derived from customers in the USA (2016: £562.1m) and £413.7m of external revenues derived from customers in China (2016: £350.9m).

The total of non-current assets other than financial instruments and deferred tax assets located in the UK is £147.6m (2016: £194.6m). The remaining £456.2m of non-current assets are located in other countries (2016: £452.6m), with £159.6m located in the USA (2016: £153.1m), £76.7m located in China (2016: £82.0m), and £72.4m located in Korea (2016: £58.9m).

4. Net operating expenses

	Note	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Selling and distribution costs		**913.5**	816.7
Administrative expenses		**560.9**	528.2
Adjusting operating items	6	**64.4**	14.9
Net operating expenses		**1,538.8**	1,359.8

5. Profit before taxation

	Note	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Adjusted profit before taxation is stated after charging/(crediting):			
Depreciation of property, plant and equipment			
Within cost of sales		**1.6**	1.4
Within selling and distribution costs		**107.4**	98.7
Within administrative expenses		**12.3**	11.8
Amortisation of intangible assets			
Within selling and distribution costs		**1.0**	1.8
Within administrative expenses[1]		**21.7**	18.5
Loss on disposal of property, plant and equipment and intangible assets		**3.5**	1.2
Net impairment of intangible assets[2]	12	**7.1**	–
Net impairment of property, plant and equipment	13	**15.9**	26.5
Employee costs[3,4]	26	**484.7**	427.5
Operating lease rentals			
Minimum lease payments[5]		**239.0**	235.3
Contingent rents		**108.6**	86.1
Net exchange gain on revaluation of monetary assets and liabilities		**(12.2)**	(1.6)
Net exchange loss on derivatives held for trading for the year		**0.2**	5.8
Trade receivables net impairment charge		**2.4**	3.1
Adjusting items			
Adjusting operating items			
Charge relating to the fragrance and beauty licence intangible asset	6	**26.1**	14.9
Restructuring costs	6	**20.8**	–
Revaluation of deferred consideration liability	6	**3.0**	–
Costs relating to the transfer of the Beauty operations	6	**14.5**	–
Total adjusting operating items		**64.4**	14.9
Adjusting financing items			
Put option liability finance charge/(income)	6	**1.0**	(9.9)
Finance charge on deferred consideration liability	6	**2.2**	–
Total adjusting financing items		**3.2**	(9.9)

1 Amortisation of intangible assets within administrative expenses has been presented excluding amortisation of £7.5m (2016: £14.9m) relating to the fragrance and beauty licence intangible, which has been presented as adjusting (refer to note 6).

2 Net impairment of intangible assets for the year ended 31 March 2017 is presented excluding an impairment of £18.6m relating to the fragrance and beauty licence intangible and an impairment of £7.3m of software assets specifically relating to the transfer of the Beauty operations, which have been presented as adjusting (refer to note 6).

3 Employee costs for the year ended 31 March 2017 are presented excluding £9.7m of costs arising as a result of the cost-efficiency programme, which are presented as adjusting (refer to note 6).

4 Employee costs for the year ended 31 March 2016 have been re-presented to include employee-related costs recognised within cost of sales.

5 Minimum lease payments include charges for onerous lease provisions during the year ended 31 March 2017 of £7.9m (2016: £20.1m) and does not include payments of £8.3m (2016: £5.0m) where existing onerous lease provisions have been utilised.

6. Adjusting items

Charge relating to the fragrance and beauty licence intangible asset

During the year ended 31 March 2013, an intangible asset of £70.9m was recognised on the Balance Sheet, relating to the present value of the anticipated incremental income to be earned by the Group as a result of selling Beauty products through retail and wholesale channels rather than under licence, following the termination of the existing licence relationship with Interparfums SA. This asset was being amortised on a straight-line basis over the period 1 April 2013 to 31 December 2017.

During the six months ended 30 September 2016, amortisation expense of £7.5m was recognised in relation to the fragrance and beauty licence intangible. At 30 September 2016, management carried out an impairment assessment of the carrying value of this asset based on a value-in-use calculation using latest estimates for cost and revenue projections. As a result of a reduction in projected revenue over the remaining life to 31 December 2017, compared to previous estimates, management concluded that the book value of the asset was not supported by its value-in-use. An impairment charge of £18.6m was recognised at 30 September 2016, to write the remaining balance of the intangible asset down to nil.

The total charge in relation to the fragrance and beauty licence intangible for the year ended 31 March 2017 is £26.1m (2016: £14.9m). This has been presented as an adjusting item, which is consistent with the treatment of the cost recognised on termination of the licence relationship in the year ended 31 March 2013. A related tax credit of £5.1m (2016: £2.8m) has also been recognised in the current period.

Restructuring costs

Restructuring costs of £20.8m were incurred in the current period, arising as a result of the Group's cost-efficiency programme announced in May 2016. These costs are presented as an adjusting item as they are considered material and one-off in nature, being part of a restructuring programme running from May 2016 to March 2019, with restructuring costs being incurred in the first two years. The most significant elements of the restructuring costs relate to redundancies and consultancy costs supporting organisational design and development of strategic growth and productivity initiatives, with the remainder relating to legal advice and project assurance. £16.7m of this cost was settled in the period with the balance being accrued at 31 March 2017. A related tax credit of £4.2m has also been recognised in the current period.

Items relating to the deferred consideration liability

On 22 April 2016, the Group entered into an agreement to transfer the economic right to the non-controlling interest in Burberry Middle East LLC to the Group in consideration of contingent payments to be made to the minority shareholder relating to an agreed percentage of the future revenue of Burberry Middle East LLC and its subsidiaries, Burberry Al Kuwait General Trading Textiles and Accessories Company WLL and Burberry Qatar WLL, over the period 2016 to 2023, together with fixed payments of AED 120.0m (£22.6m), relating to profits of Burberry Middle East LLC up to 31 March 2016, to be paid over the period 2016 to 2019. A liability for the present value of the fixed and contingent deferred consideration of AED 236.0m (£44.6m) was recognised at this point. Refer to note 19 for further details of the deferred consideration liability.

A charge of £3.0m in relation to the revaluation of this balance has been recognised in operating expenses for the year ended 31 March 2017. A financing charge of £2.2m in relation to the unwinding of the discount on the non-current portion of the deferred consideration liability has also been recognised for the year ended 31 March 2017. These movements are unrealised. No tax has been recognised on either of these items, as the future payments are not considered to be deductible for tax purposes. These items are presented as adjusting items in accordance with the Group accounting policy, as they arise from changes in the value of the liability for expected future payments relating to the purchase of a non-controlling interest in the Group.

Put option liability finance charge/income

The financing charge of £1.0m for the year ended 31 March 2017 (2016: income of £9.9m) relates to fair value movements including the unwinding of the discount on the put option liability over the non-controlling interest in Burberry (Shanghai) Trading Co., Ltd. No tax has been recognised on this item, as the value of the option on exercise is not considered to be deductible for tax purposes. This item has been presented as an adjusting item in accordance with the Group accounting policy as it arises from changes in the value of the liability for expected future payments relating to the purchase of a non-controlling interest in the Group. Refer to note 19 for further details of the carrying value of the put option liability.

6. Adjusting items (continued)

Costs relating to the transfer of the Beauty operations

On 3 April 2017 Burberry entered into an agreement with Coty Geneva SARL Versoix (Coty) to grant Coty a licence for its fragrance and beauty products and to transfer Burberry's Beauty operations to Coty. This agreement is expected to complete in October 2017. The licence agreement and the business transfer will be accounted for in the financial statements for the year ending 31 March 2018. Further details of the agreement to transfer the beauty operations business are set out in note 31.

Costs of £14.5m arising in relation to the transaction have been incurred and recognised in the current period. These costs related to the write-off of software assets specifically relating to the Beauty operations of £7.3m (refer to note 12); a provision for the termination of a distributor agreement; and other ancillary charges incurred. None of these costs were paid in the period. These costs are presented as an adjusting item in accordance with the Group accounting policy as they arose in relation to the transfer of a business. A related tax credit of £2.9m has also been recognised in the period.

7. Auditor remuneration

Fees incurred during the year in relation to audit and non-audit services are analysed below.

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Audit services in respect of the financial statements of the Company and consolidation	**0.4**	0.4
Audit services in respect of the financial statements of subsidiary companies	**1.8**	1.8
Audit-related assurance services	**0.1**	0.1
Services relating to taxation advisory services	**0.2**	0.2
Other non-audit-related services	**0.2**	0.1
Total	**2.7**	2.6

8. Financing

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Bank interest income		**5.0**	4.6
Other finance income		**0.5**	0.5
Finance income		**5.5**	5.1
Interest expense on bank loans and overdrafts		**(1.0)**	(1.5)
Bank charges		**(0.7)**	(0.7)
Other finance expense		**(0.1)**	(0.1)
Finance expense		**(1.8)**	(2.3)
Put option liability finance (charge)/income	6	**(1.0)**	9.9
Finance charge on deferred consideration liability	6	**(2.2)**	–
Other financing (charge)/income		**(3.2)**	9.9
Net finance income		**0.5**	12.7

9. Taxation

Analysis of charge for the year recognised in the Group Income Statement:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Current tax		
UK corporation tax		
Current tax on income for the year to 31 March 2017 at 20% (2016: 20%)	**48.2**	52.8
Double taxation relief	**(0.8)**	(0.8)
Adjustments in respect of prior years	**(3.3)**	(3.1)
	44.1	48.9
Foreign tax		
Current tax on income for the year	**45.3**	49.1
Adjustments in respect of prior years	**(6.3)**	(2.0)
Total current tax	**83.1**	96.0
Deferred tax		
UK deferred tax		
Origination and reversal of temporary differences	**(0.2)**	9.9
Impact of changes to tax rates	**0.8**	1.3
Adjustments in respect of prior years	**(0.4)**	(0.7)
	0.2	10.5
Foreign deferred tax		
Origination and reversal of temporary differences	**19.7**	(13.1)
Impact of changes to tax rates	**(0.2)**	–
Adjustments in respect of prior years	**4.3**	7.6
Total deferred tax	**24.0**	5.0
Total tax charge on profit	**107.1**	101.0

Analysis of charge for the year recognised in other comprehensive income and directly in equity:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Current tax		
Recognised in other comprehensive income		
Current tax charge on exchange differences on loans (foreign currency translation reserve)	**5.4**	1.9
Current tax charge on cash flow hedges deferred in equity (hedging reserve)	**1.9**	–
Current tax credit on net investment hedges deferred in equity (hedging reserve)	**(0.6)**	–
Total current tax recognised in other comprehensive income	**6.7**	1.9
Recognised in equity		
Current tax credit on share options (retained earnings)	**(0.4)**	(2.0)
Total current tax recognised directly in equity	**(0.4)**	(2.0)
Deferred tax		
Recognised in other comprehensive income		
Deferred tax charge on cash flow hedges deferred in equity (hedging reserve)	**–**	1.5
Deferred tax (credit)/charge on cash flow hedges transferred to income (hedging reserve)	**(0.9)**	0.7
Deferred tax charge/(credit) on net investment hedges deferred in equity (hedging reserve)	**0.1**	(0.1)
Deferred tax credit on net investment hedges transferred to income (hedging reserve)	**–**	(0.5)
Total deferred tax recognised in other comprehensive income	**(0.8)**	1.6
Recognised in equity		
Deferred tax (credit)/charge on share options (retained earnings)	**(0.5)**	6.5
Total deferred tax recognised directly in equity	**(0.5)**	6.5

9. Taxation (continued)

The tax rate applicable on profit varied from the standard rate of corporation tax in the UK due to the following factors:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Profit before taxation	**394.8**	415.6
Tax at 20% (2016: 20%) on profit before taxation	**79.0**	83.1
Rate adjustments relating to overseas profits	**14.1**	3.4
Permanent differences	**5.7**	5.5
Tax on dividends not creditable	**6.1**	1.6
Current year tax losses not recognised	**5.5**	4.7
Prior year tax losses recognised in the year	**–**	(0.4)
Prior year tax losses no longer recognised	**1.8**	–
Adjustments in respect of prior years	**(5.7)**	1.8
Adjustments to deferred tax relating to changes in tax rates	**0.6**	1.3
Total taxation charge	**107.1**	101.0

Total taxation recognised in the Group Income Statement arises on:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Adjusted profit before taxation	**119.3**	103.8
Adjusting items	**(12.2)**	(2.8)
Total taxation charge	**107.1**	101.0

10. Earnings per share

The calculation of basic earnings per share is based on profit or loss attributable to owners of the Company for the year divided by the weighted average number of ordinary shares in issue during the year. Basic and diluted earnings per share based on adjusted profit before taxation are also disclosed to indicate the underlying profitability of the Group.

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Attributable profit for the year before adjusting items[1]	**342.2**	311.7
Effect of adjusting items[1] (after taxation)	**(55.4)**	(2.2)
Attributable profit for the year	**286.8**	309.5

1 Refer to note 6 for details of adjusting items.

The weighted average number of ordinary shares represents the weighted average number of Burberry Group plc ordinary shares in issue throughout the year, excluding ordinary shares held in the Group's ESOP trusts.

Diluted earnings per share is based on the weighted average number of ordinary shares in issue during the year. In addition, account is taken of any options and awards made under the employee share incentive schemes, which will have a dilutive effect when exercised. Refer to note 26 for additional information on the terms and conditions of the employee share incentive schemes.

	Year to 31 March 2017 Millions	Year to 31 March 2016 Millions
Weighted average number of ordinary shares in issue during the year	**439.1**	441.9
Dilutive effect of the employee share incentive schemes	**3.1**	4.2
Diluted weighted average number of ordinary shares in issue during the year	**442.2**	446.1

11. Dividends paid to owners of the Company

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Prior year final dividend paid 26.8p per share (2016: 25.5p)	**118.6**	112.5
Interim dividend paid 10.5p per share (2016: 10.2p)	**45.8**	45.2
Total	**164.4**	157.7

A final dividend in respect of the year to 31 March 2017 of 28.4p (2016: 26.8p) per share, amounting to £123.6m, has been proposed for approval by the shareholders at the Annual General Meeting subsequent to the balance sheet date. The final dividend to Burberry Group plc shareholders has not been recognised as a liability at the year end and will be paid on 4 August 2017 to shareholders on the register at the close of business on 7 July 2017.

12. Intangible assets

Cost	Goodwill £m	Trade marks, licences and other intangible assets £m	Computer Software[1] £m	Intangible assets in the course of construction £m	Total £m
As at 31 March 2015	88.8	87.0	121.0	12.2	309.0
Effect of foreign exchange rate changes	–	0.5	0.2	–	0.7
Additions	–	0.6	9.0	21.6	31.2
Disposals	–	(0.2)	(7.3)	–	(7.5)
Reclassifications from assets in the course of construction	–	–	10.8	(10.8)	–
As at 31 March 2016	88.8	87.9	133.7	23.0	333.4
Effect of foreign exchange rate changes	10.8	0.6	3.7	–	15.1
Additions	–	0.3	14.9	18.9	34.1
Disposals	–	–	(7.5)	(1.5)	(9.0)
Reclassifications from assets in the course of construction	–	–	20.1	(20.1)	–
As at 31 March 2017	**99.6**	**88.8**	**164.9**	**20.3**	**373.6**
Accumulated amortisation and impairment					
As at 31 March 2015	–	37.1	78.4	–	115.5
Effect of foreign exchange rate changes	–	0.3	0.3	–	0.6
Charge for the year	–	16.0	19.2	–	35.2
Disposals	–	(0.2)	(7.3)	–	(7.5)
As at 31 March 2016	–	53.2	90.6	–	143.8
Effect of foreign exchange rate changes	–	0.4	2.7	–	3.1
Charge for the year	–	8.4	21.8	–	30.2
Disposals	–	–	(6.6)	–	(6.6)
Net impairment charge on assets	–	18.6	14.4	–	33.0
As at 31 March 2017	**–**	**80.6**	**122.9**	–	**203.5**
Net book value					
As at 31 March 2017	**99.6**	**8.2**	**42.0**	**20.3**	**170.1**
As at 31 March 2016	88.8	34.7	43.1	23.0	189.6

1 During the year ended 31 March 2017, software assets of £14.4m were impaired, of which £7.3m related to the transfer of the Beauty operations and is included in adjusting items (see note 6).

Fragrance and beauty licence intangible asset

During the year ended 31 March 2013, an intangible asset of £70.9m was recognised on the Balance Sheet, relating to the present value of the anticipated incremental income to be earned by the Group as a result of selling Beauty products through retail and wholesale channels rather than under licence following the termination of the existing licence relationship with Interparfums SA. This asset is presented within the intangible asset category 'trade mark, licences and other intangible assets', and was being amortised on a straight-line basis over the period 1 April 2013 to 31 December 2017. The carrying value of this asset was £26.1m at 31 March 2016. At 30 September 2016 an impairment charge of £18.6m was recorded to write the carrying value of this intangible asset down to nil. Refer to note 6 for further details.

12. Intangible assets (continued)

Impairment testing of goodwill

The carrying value of the goodwill allocated to the cash generating units is as follows:

	As at 31 March 2017 £m	As at 31 March 2016 £m
China[1]	**48.9**	45.4
Korea	**29.4**	25.1
Other	**21.3**	18.3
Total	**99.6**	88.8

1 The goodwill reported for China does not include any goodwill attributable to the non-controlling interest.

The Group tests goodwill for impairment annually or where there is an indication that goodwill might be impaired. The recoverable amount of all cash generating units has been determined on a value-in-use basis. Value-in-use calculations for each cash generating unit are based on projected three-year pre-tax discounted cash flows together with a discounted terminal value. The cash flows have been discounted at pre-tax rates reflecting the Group's weighted average cost of capital adjusted for country-specific tax rates and risks. Where the cash generating unit has a non-controlling interest which was recognised at a value equal to its proportionate interest in the net identifiable assets of the acquired subsidiary at the acquisition date, the carrying amount of the goodwill has been grossed to include the goodwill attributable to the non-controlling interest, for the purpose of impairment testing the goodwill attributable to the cash generating unit. The key assumptions contained in the value-in-use calculations include the future revenues, the margins achieved, the assumed life of the business and the discount rates applied.

The value-in-use calculations have been prepared using management's approved financial plans for the three years ending 31 March 2020. These plans contain management's best view of the expected performance for the year ending 31 March 2018 and the expected growth rates for the two years ending 31 March 2019 and 31 March 2020. The plans are based on the performance achieved in the current year and management's knowledge of the market environment and future business plans. A terminal value has been included in the value-in-use calculation based on the cash flows for the year ending 31 March 2020 incorporating the assumption that there is no growth beyond 31 March 2020.

For the material goodwill balances of China and Korea, a sensitivity analysis has been performed on the value-in-use calculations by assuming no growth beyond the year ending 31 March 2018. This sensitivity analysis indicated significant headroom between the recoverable amount under this scenario and the carrying value of goodwill and therefore management considered no further detailed sensitivity analysis was required.

The pre-tax discount rates for China and Korea were 16.7% and 14.0% respectively (2016: 16.1%; 13.6%).

The other goodwill balance of £21.3m (2016: £18.3m) consists of amounts relating to eight cash generating units, none of which have goodwill balances exceeding £10m as at 31 March 2017.

No impairment has been recognised in respect of the carrying value of the goodwill balance in the year as, for each cash generating unit, the recoverable amount of goodwill exceeds its carrying value.

13. Property, plant and equipment

Cost	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment[1] £m	Assets in the course of construction £m	Total £m
As at 31 March 2015	137.5	361.5	443.5	27.8	970.3
Effect of foreign exchange rate changes	6.2	11.7	15.3	(0.5)	32.7
Additions	15.3	49.5	41.7	8.5	115.0
Disposals	–	(12.6)	(26.7)	(0.5)	(39.8)
Reclassification from assets in the course of construction	–	8.2	17.7	(25.9)	–
As at 31 March 2016	159.0	418.3	491.5	9.4	1,078.2
Effect of foreign exchange rate changes	18.4	47.5	43.7	1.0	110.6
Additions	0.4	37.4	27.0	13.2	78.0
Disposals	(29.2)	(32.4)	(28.5)	(0.4)	(90.5)
Reclassification from assets in the course of construction	–	4.0	4.7	(8.7)	–
As at 31 March 2017	**148.6**	**474.8**	**538.4**	**14.5**	**1,176.3**
Accumulated depreciation and impairment					
As at 31 March 2015	48.2	181.3	304.3	–	533.8
Effect of foreign exchange rate changes	2.8	4.9	10.7	–	18.4
Charge for the year	3.3	45.9	62.7	–	111.9
Disposals	–	(12.4)	(26.2)	–	(38.6)
Net impairment charge on assets	2.3	13.7	10.5	–	26.5
As at 31 March 2016	56.6	233.4	362.0	–	652.0
Effect of foreign exchange rate changes	6.7	28.5	33.2	–	68.4
Charge for the year	4.3	52.3	64.7	–	121.3
Disposals	(21.3)	(32.0)	(27.6)	–	(80.9)
Net impairment charge on assets	0.6	8.1	7.2	–	15.9
As at 31 March 2017	**46.9**	**290.3**	**439.5**	**–**	**776.7**
Net book value					
As at 31 March 2017	**101.7**	**184.5**	**98.9**	**14.5**	**399.6**
As at 31 March 2016	102.4	184.9	129.5	9.4	426.2

1 Included in fixtures, fittings and equipment are finance lease assets with a net book value of £1.3m (2016: £1.7m).

During the year to 31 March 2017, a net impairment charge of £23.0m (2016: £45.3m) was recorded as a result of the annual review of impairment of retail store assets. A charge of £15.3m (2016: £24.2m) was recognised against property, plant and equipment, and £7.7m (2016: £21.1m) was charged in relation to onerous lease provisions. Refer to note 20 for further details of onerous lease provisions.

Where indicators of impairment were identified, the impairment review compared the value-in-use of the cash generating units to the carrying values at 31 March 2017. The pre-tax cash flow projections were based on financial plans of expected revenues and costs for each retail cash generating unit, as approved by management, and extrapolated beyond the budget year to the lease exit dates using growth rates and inflation rates appropriate to each store's location. The pre-tax discount rates used in these calculations were between 11.4% and 21.6% (2016: between 11.4% and 19.7%), based on the Group's weighted average cost of capital adjusted for country-specific tax rates and risks. Where the value-in-use was less than the carrying value of the cash generating unit, an impairment of property, plant and equipment was recorded. Where the value-in-use was negative, onerous lease provisions were assessed in relation to the future contracted minimum lease payments. Potential alternative uses for property, such as subletting of leasehold or sale of freehold, were considered in estimating both the value for impairment charges and onerous lease provisions.

13. Property, plant and equipment (continued)

Management has considered the potential impact of changes in assumptions on the total recorded as a result of the review for impairment of retail store assets and consideration of onerous lease provisions. The most significant estimate is the future level of revenues achieved by the retail stores. It is estimated that, for the stores subject to an impairment or onerous lease provision in the year, a 5% decrease/increase in revenue assumptions for the year ending 31 March 2018, with no change to subsequent forecast revenue growth rate assumptions, would result in an £8m increase/£9m decrease in the charge in the year ended 31 March 2017.

The impairment charge recorded in property, plant and equipment relates to 33 retail cash generating units (2016: 32 retail cash generating units) for which the total recoverable amount at the balance sheet date is £22.0m (2016: £18.2m). Impairment charges of £0.6m (2016: £2.3m) arose relating to other assets in the year.

14. Deferred taxation

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

	As at 31 March 2017 £m	As at 31 March 2016 £m
Deferred tax assets	**125.0**	134.4
Deferred tax liabilities	**(0.4)**	(0.6)
Net amount	**124.6**	133.8

The movement in the deferred tax account is as follows:	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
As at 1 April	**133.8**	144.1
Effect of foreign exchange rate changes	**13.5**	2.8
Charged to the Income Statement	**(24.0)**	(5.0)
Credited/(charged) to other comprehensive income	**0.8**	(1.6)
Credited/(charged) to equity	**0.5**	(6.5)
As at 31 March	**124.6**	133.8

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

<u>Deferred tax liabilities</u>

	Capital allowances £m	Unrealised inventory profit and other inventory provisions £m	Derivative instruments £m	Other £m	Total £m
As at 31 March 2015	2.2	(1.1)	1.5	1.6	4.2
Effect of foreign exchange rate changes	0.2	–	–	–	0.2
Charged/(credited) to the Income Statement	0.4	0.2	–	(0.6)	–
Credited to other comprehensive income	–	–	(0.4)	–	(0.4)
As at 31 March 2016	2.8	(0.9)	1.1	1.0	4.0
Effect of foreign exchange rate changes	0.3	(0.1)	–	0.3	0.5
Charged/(credited) to the Income Statement	0.6	(0.1)	–	4.3	4.8
As at 31 March 2017	**3.7**	**(1.1)**	**1.1**	**5.6**	**9.3**

14. Deferred taxation (continued)

Deferred tax assets

	Capital allowances £m	Unrealised inventory profit and other inventory provisions £m	Share schemes £m	Derivative instruments £m	Unused tax losses £m	Other[1] £m	Total £m
As at 31 March 2015	7.5	40.3	21.8	1.3	5.8	71.6	148.3
Effect of foreign exchange rate changes	(0.4)	1.8	–	–	0.7	0.9	3.0
Credited/(charged) to the Income Statement	4.4	4.8	(6.0)	–	0.4	(8.6)	(5.0)
Charged to other comprehensive income	–	–	–	(2.0)	–	–	(2.0)
Charged to equity	–	–	(6.5)	–	–	–	(6.5)
As at 31 March 2016	11.5	46.9	9.3	(0.7)	6.9	63.9	137.8
Effect of foreign exchange rate changes	(0.5)	7.5	–	–	0.6	6.4	14.0
Credited/(charged) to the Income Statement	3.2	(4.4)	(1.4)	–	(2.1)	(14.5)	(19.2)
Credited to other comprehensive income	–	–	–	0.8	–	–	0.8
Credited to equity	–	–	0.5	–	–	–	0.5
As at 31 March 2017	**14.2**	**50.0**	**8.4**	**0.1**	**5.4**	**55.8**	**133.9**

1 Deferred tax balances within the 'Other' category in the analysis above include temporary differences arising on property provisions of £9.1m (2016: £8.5m), accrued intercompany expenses of £20.2m (2016: £23.0m) and other provisions and accruals of £26.5m (2016: £32.4m).

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of £79.8m (2016: £62.3m) in respect of losses and temporary timing differences amounting to £272.2m (2016: £215.1m) that can be set off against future taxable income. There is a time limit for the recovery of £37.0m of these potential assets (2016: £24.8m) which ranges from two to ten years (2016: three to ten years).

Included within other temporary differences above is a deferred tax liability of £5.0m (2016: £1.2m) relating to unremitted overseas earnings. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the Group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance. The aggregate amount of temporary differences in respect of unremitted earnings is £300m (2016: £270m).

15. Trade and other receivables

	As at 31 March 2017 £m	As at 31 March 2016 £m
Non-current		
Deposits and other financial receivables	**44.9**	37.5
Other non-financial receivables	**3.7**	2.8
Prepayments	**27.8**	26.2
Total non-current trade and other receivables	**76.4**	66.5
Current		
Trade receivables	**201.3**	205.1
Provision for doubtful debts	**(9.5)**	(7.2)
Net trade receivables	**191.8**	197.9
Other financial receivables	**22.3**	20.9
Other non-financial receivables	**20.4**	27.5
Prepayments	**38.1**	35.4
Accrued income	**3.0**	3.7
Total current trade and other receivables	**275.6**	285.4
Total trade and other receivables	**352.0**	351.9

Included in total trade and other receivables are non-financial assets of £90.0m (2016: £91.9m).

The individually impaired receivables relate to balances with trading parties which have passed their payment due dates or where uncertainty exists over recoverability. As at 31 March 2017, trade receivables of £17.2m (2016: £18.2m) were impaired. The amount of the provision against these receivables was £9.5m as at 31 March 2017 (2016: £7.2m). It was assessed that a portion of the receivables is expected to be recovered. The ageing of the impaired trade receivables is as follows:

	As at 31 March 2017 £m	As at 31 March 2016 £m
Current	**–**	3.7
Less than 1 month overdue	**7.0**	11.5
1 to 3 months overdue	**2.3**	1.5
Over 3 months overdue	**7.9**	1.5
	17.2	18.2

15. Trade and other receivables (continued)

As at 31 March 2017, trade receivables of £20.9m (2016: £9.3m) were overdue but not impaired. The ageing of these overdue receivables is as follows:

	As at 31 March 2017 £m	As at 31 March 2016 £m
Less than 1 month overdue	**8.4**	4.3
1 to 3 months overdue	**12.1**	4.1
Over 3 months overdue	**0.4**	0.9
	20.9	9.3

Movement in the provision for doubtful debts is as follows:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
As at 1 April	**7.2**	4.6
Effect of foreign exchange rate changes	**0.2**	–
Increase in provision for doubtful debts	**2.4**	3.1
Receivables written off during the year as uncollectable	**(0.3)**	(0.5)
As at 31 March	**9.5**	7.2

As at 31 March 2017 there were £1.6m impaired receivables within other receivables (2016: £1.5m).

The carrying amounts of the Group's non-derivative financial assets excluding cash and cash equivalents by customer geographical location are:

	As at 31 March 2017 £m	As at 31 March 2016 £m
Asia Pacific	**120.4**	99.3
EMEIA	**78.1**	89.1
Americas	**63.5**	71.6
	262.0	260.0

16. Inventories

	As at 31 March 2017 £m	As at 31 March 2016 £m
Raw materials	**32.7**	38.3
Work in progress	**1.8**	1.3
Finished goods	**470.8**	447.1
Total inventories	**505.3**	486.7

The cost of inventories recognised as an expense and included in cost of sales amounted to £795.9m (2016: £723.3m). The net movement in inventory provisions included in cost of sales for the year ended 31 March 2017 was a cost of £21.1m (2016: £24.9m).

The cost of finished goods physically destroyed in the year was £26.9m (2016: £18.8m).

17. Derivative financial instruments

Master netting arrangements

The Group's forward foreign exchange contracts and equity swap contracts are entered into under International Swaps and Derivatives Association (ISDA) master netting arrangements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single amount that is payable by one party to the other. In certain circumstances, such as when a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions. The ISDA agreements do not meet the criteria for offsetting in the Balance Sheet as the Group's right to offset is enforceable only on the occurrence of future events such as default. The Group's Balance Sheet would not be materially different if it had offset its forward foreign exchange contracts and equity swap contracts subject to these ISDA agreements.

Derivative financial assets

	As at 31 March 2017 £m	As at 31 March 2016 £m
Forward foreign exchange contracts – cash flow hedges	**3.2**	7.8
Forward foreign exchange contracts – hedge of net investment	**0.5**	–
Forward foreign exchange contracts – held for trading[1]	**0.3**	–
Equity swap contracts – held for trading	**2.1**	0.5
Total position	**6.1**	8.3
Comprising:		
Total non-current position	**1.1**	0.3
Total current position	**5.0**	8.0

Derivative financial liabilities

	As at 31 March 2017 £m	As at 31 March 2016 £m
Forward foreign exchange contracts – cash flow hedges	**(0.6)**	(1.3)
Forward foreign exchange contracts – hedge of net investment	**(0.4)**	(0.8)
Forward foreign exchange contracts – held for trading[1]	**(2.5)**	(0.1)
Equity swap contracts – held for trading	**–**	(0.1)
Total position	**(3.5)**	(2.3)

All derivative financial liabilities are current.

Net derivative financial instruments

The notional principal amounts of the outstanding forward foreign exchange and equity swap contracts at year end are:

	As at 31 March 2017 £m	As at 31 March 2016 £m
Cash flow hedges	**129.1**	107.4
Hedge of net investment	**74.7**	17.4
Held for trading[1]	**122.6**	61.4
Equity swap contracts	**5.9**	5.9

1 Forward foreign exchange contracts classified as held for trading are used for cash management purposes. At 31 March 2017 all such contracts had maturities of no greater than three months from the balance sheet date.

17. Derivative financial instruments (continued)

Contractual maturities of derivatives used for hedging

The gross inflows/(outflows) disclosed in the table below represent the contractual undiscounted cash flows relating to derivative financial assets and liabilities held for risk management purposes. They are usually not closed out prior to the contractual maturity. The foreign currency cash flows shown are based on spot rates at the balance sheet date.

		Contractual maturities		
	Carrying amount £m	Contractual cash flows £m	1 to 6 months £m	6 to 12 months £m
As at 31 March 2017				
Forward exchange contracts used for hedging:				
Outflow		**(204.1)**	**(120.4)**	**(83.7)**
Inflow		**206.1**	**123.2**	**82.9**
	2.7	**2.0**	**2.8**	**(0.8)**
As at 31 March 2016				
Forward exchange contracts used for hedging:				
Outflow		(124.2)	(45.7)	(78.5)
Inflow		130.2	50.4	79.8
	5.7	6.0	4.7	1.3

The contractual maturity profile of non-current financial liabilities is shown in note 25. For further details of cash flow hedging and net investment hedging refer to note 25 – Market risk.

18. Cash and cash equivalents

	As at 31 March 2017 £m	As at 31 March 2016 £m
Cash at bank and in hand	**268.7**	282.1
Short-term deposits	**574.8**	429.7
Total	**843.5**	711.8

19. Trade and other payables

	As at 31 March 2017 £m	As at 31 March 2016 £m
Non-current		
Put option liability over non-controlling interest	**–**	45.8
Other payables	**2.5**	3.0
Deferred income and non-financial accruals	**75.6**	65.9
Deferred consideration	**23.8**	–
Total non-current trade and other payables	**101.9**	114.7
Current		
Trade payables	**172.3**	167.2
Other taxes and social security costs	**58.7**	58.3
Other payables[1]	**8.2**	3.9
Accruals	**186.9**	132.4
Deferred income and non-financial accruals	**22.1**	25.4
Deferred consideration	**10.9**	–
Total current trade and other payables	**459.1**	387.2
Total trade and other payables	**561.0**	501.9

1 Includes £3.3m (2016: £nil) relating to the cost of shares not yet purchased under an agreement entered in to by the Company to purchase its own shares, together with anticipated stamp duty arising. Refer to note 22 for further details.

Included in total trade and other payables are non-financial liabilities of £156.5m (2016: £149.6m).

19. Trade and other payables (continued)

Put option liability over non-controlling interest

Following the acquisition of the Burberry retail and distribution business in China, Sparkle Roll Holdings Limited, a non-Group company, retained a 15% economic interest in the Group's business in China. Put and call options were granted over this interest stake which were exercisable after 1 September 2015 in the case of the call option, and after 1 September 2020 in the case of the put option. The net present value of the put option liability was recognised as a non-current financial liability under IAS 39. On 1 August 2016, the Group exercised the call option relating to the economic interest. As a result, the put option expired at this date.

The value of the put option liability is £nil at 31 March 2017 (2016: £45.8m). The movement in the liability for the period includes an increase of £1.0m relating to unrealised fair value movements, as described in note 6, together with an increase due to the translation of the put option liability to the Group's presentational currency, combined with the derecognition of £51.0m on its expiry. Refer to note 29 for further details.

Deferred consideration

Following the purchase of the economic right to the non-controlling interest in Burberry Middle East LLC on 22 April 2016, the Group has recognised a liability in relation to the deferred consideration for this transaction. Refer to note 29 for further details of this transaction. The deferred consideration consists of fixed payments to be paid over the period 2016 to 2019, and contingent payments calculated as an agreed percentage of the future revenue of Burberry Middle East LLC and its subsidiaries, over the period 2016 to 2023.

The fair value of the deferred consideration relating to the fixed payments has been derived via a present value calculation of the remaining fixed payments of AED 38.1m (£8.3m) discounted at an appropriate risk-free rate applicable to Burberry Middle East LLC.

The fair value of the deferred consideration relating to the contingent payments has been estimated using a present value calculation, incorporating observable and non-observable inputs. The inputs applied in arriving at the value of this component of the deferred consideration are an estimate of the future revenue of Burberry Middle East LLC and its subsidiaries from the current period to 2023 and an appropriate risk-adjusted discount rate for Burberry Middle East LLC.

The carrying value of the deferred consideration relating to contingent payments is dependent on assumptions applied in determining these inputs, and is subject to change in the event that there is a change in any of these assumptions. The valuation is updated at every reporting period or more often if a significant change to any input is observed.

A 10% increase/decrease in the estimate of future revenues of Burberry Middle East LLC and its subsidiaries would result in a £2.3m increase/decrease in the carrying value of the deferred consideration relating to contingent payments at 31 March 2017 and a corresponding £2.3m decrease/increase in the profit before taxation for the year ended 31 March 2017.

20. Provisions for other liabilities and charges

	Property obligations £m	Restructuring costs £m	Other costs £m	Total £m
Balance as at 31 March 2015	29.4	0.8	2.3	32.5
Effect of foreign exchange rate changes	1.0	–	0.1	1.1
Created during the year	30.8	–	2.2	33.0
Discount unwind	0.1	–	–	0.1
Utilised during the year	(5.8)	(0.1)	(0.2)	(6.1)
Released during the year	(3.7)	(0.7)	(0.2)	(4.6)
Balance as at 31 March 2016	51.8	–	4.2	56.0
Effect of foreign exchange rate changes	6.2	–	0.1	6.3
Created during the year	18.8	–	6.9	25.7
Discount unwind	0.1	–	–	0.1
Utilised during the year	(11.1)	–	(1.0)	(12.1)
Released during the year	(8.1)	–	(2.5)	(10.6)
Balance as at 31 March 2017	**57.7**	**–**	**7.7**	**65.4**

Within property obligations are amounts of £30.3m (2016: £27.0m) relating to onerous lease obligations. See note 13 for details relating to impairment of assets and onerous lease provisions for retail cash generating units.

The net charge in the year for onerous lease obligations is £7.9m (2016: £20.1m). This includes amounts of £7.7m (2016: £21.1m) relating to retail stores (refer to note 13) and a charge of £0.2m (2016: credit of £1.0m) relating to other properties.

	As at 31 March 2017 £m	As at 31 March 2016 £m
Analysis of total provisions:		
Non-current	**47.3**	38.4
Current	**18.1**	17.6
Total	**65.4**	56.0

The non-current provisions relate to provisions for onerous leases and property reinstatement costs which are expected to be utilised within 19 years (2016: 20 years).

21. Bank overdrafts and borrowings

Included within bank overdrafts is £31.3m (2016: £44.9m) representing balances on cash pooling arrangements in the Group.

The Group has a number of committed and uncommitted arrangements agreed with third-parties. At 31 March 2017, the Group held bank overdrafts of £3.0m (2016: £6.6m) excluding balances on cash pooling arrangements.

On 25 November 2014, the Group entered into a £300m multi-currency revolving credit facility with a syndicate of banks. At 31 March 2017, there were £nil outstanding drawings (2016: £nil). During the year the Group exercised an option to extend the maturity of the facility to November 2021, after receiving consent from all members of the syndicate. The Group is in compliance with the financial and other covenants within this facility and has been in compliance throughout the financial year.

The fair value of borrowings and overdrafts approximate the carrying amount because of the short maturity of these instruments.

22. Share capital and reserves

Allotted, called up and fully paid share capital	Number	£m
Ordinary shares of 0.05p (2016: 0.05p) each		
As at 31 March 2015	444,744,067	0.2
Allotted on exercise of options during the year	293,187	–
As at 31 March 2016	445,037,254	0.2
Allotted on exercise of options during the year	135,811	–
As at 31 March 2017	**445,173,065**	**0.2**

The Company has a general authority from shareholders, renewed at each Annual General Meeting, to repurchase a maximum of 10% of its issued share capital. During the year ended 31 March 2017, the Company entered into an agreement to purchase £100m of its own shares back as part of a share buy-back programme. Own shares purchased by the Company, as part of a share buy-back programme, are classified as treasury shares and their cost offset against retained earnings. When treasury shares are cancelled, a transfer is made from retained earnings to capital redemption reserve, equivalent to the nominal value of the shares purchased and subsequently cancelled. The cost of shares purchased by ESOP trusts are offset against retained earnings, as the amounts paid reduce the profits available for distribution by the Company.

As at 31 March 2017 the amount held as treasury shares by the Company and offset against retained earnings is £97.2m (2016: £nil) including stamp duty of £0.5m (2016: £nil). As at 31 March 2017 the Company held 6.7m treasury shares (2016: nil), with a market value of £116.1m (2016: £nil). £3.3m (2016: £nil), relating to the cost of shares not yet purchased under the current share buy-back agreement, has been charged to retained earnings in the period, with the payment obligation recognised in other payables (note 19).

As at 31 March 2017 the amount of own shares held by ESOP trusts and offset against retained earnings is £44.7m (2016: £39.9m). As at 31 March 2017, the ESOP trusts held 3.5m shares (2016: 3.1m) in the Company, with a market value of £59.6m (2016: £42.7m). In the year to 31 March 2017 the ESOP trusts have waived their entitlement to dividends of £1.7m (2016: £1.2m).

During the year profits of £nil (2016: £2.0m) have been transferred to capital reserves due to statutory requirements of subsidiaries. In the year ended 31 March 2016, £6.2m was transferred from capital reserves to retained earnings due to the disposal and merger of subsidiaries. No such activity took place in the current year. The capital reserve consists of non-distributable reserves and the capital redemption reserve arising on the purchase of own shares.

Other reserves in the Statement of Changes in Equity consists of the capital reserve, the foreign currency translation reserve, and the hedging reserves. The hedging reserves consist of the cash flow hedge reserve and the net investment hedge reserve.

		Hedging reserves			
	Capital reserve £m	Cash flow hedges £m	Net investment hedge £m	Foreign currency translation reserve £m	Total £m
Balance as at 31 March 2015	45.3	(4.4)	4.1	147.3	192.3
Other comprehensive income:					
Cash flow hedges – gains deferred in equity	–	7.3	–	–	7.3
Cash flow hedges – losses transferred to income	–	3.5	–	–	3.5
Net investment hedges – losses deferred in equity	–	–	(0.8)	–	(0.8)
Foreign currency translation differences	–	–	–	19.5	19.5
Tax on other comprehensive income	–	(2.2)	0.6	(1.9)	(3.5)
Total comprehensive income/(expense) for the year	–	8.6	(0.2)	17.6	26.0
Disposal of subsidiaries	(6.2)	–	–	–	(6.2)
Transfer between reserves	2.0	–	–	–	2.0
Balance as at 31 March 2016	41.1	4.2	3.9	164.9	214.1
Other comprehensive income:					
Cash flow hedges – gains deferred in equity	–	8.7	–	–	8.7
Cash flow hedges – gains transferred to income	–	(4.0)	–	–	(4.0)
Net investment hedges – losses deferred in equity	–	–	(2.3)	–	(2.3)
Foreign currency translation differences	–	–	–	101.3	101.3
Tax on other comprehensive income	–	(1.0)	0.5	(5.4)	(5.9)
Total comprehensive income for the year	–	3.7	(1.8)	95.9	97.8
Balance as at 31 March 2017	**41.1**	**7.9**	**2.1**	**260.8**	**311.9**

23. Financial commitments

The Group leases various retail stores, offices, warehouses and equipment under non-cancellable operating lease arrangements. The leases have varying terms, escalation clauses and renewal rights. The Group has commitments relating to future minimum lease payments under these non-cancellable operating leases as follows:

	As at 31 March 2017 £m	As at 31 March 2016 £m
Amounts falling due:		
Within 1 year	**221.9**	206.2
Between 2 and 5 years	**524.0**	461.3
After 5 years	**163.6**	188.9
Total	**909.5**	856.4

The financial commitments for operating lease amounts calculated as a percentage of revenue ('revenue leases') have been based on the minimum payment that is required under the terms of the relevant lease excluding any contingent payments. Under certain revenue-based leases, there are no minimums and therefore no financial commitment is included in the table above. As a result, the amounts charged to the Income Statement may be materially higher than the financial commitment at the prior year end.

The total of future minimum payments to be received under non-cancellable leases on investment properties and subleases on land and buildings is as follows:

	Leases		Subleases	
	As at 31 March 2017 £m	As at 31 March 2016 £m	**As at 31 March 2017 £m**	As at 31 March 2016 £m
Amounts falling due:				
Within 1 year	**0.8**	0.7	**2.4**	2.3
Between 2 and 5 years	**1.5**	2.1	**1.6**	3.4
After 5 years	**–**	–	**0.1**	–
Total	**2.3**	2.8	**4.1**	5.7

24. Capital commitments

	As at 31 March 2017 £m	As at 31 March 2016 £m
Capital commitments contracted but not provided for:		
Property, plant and equipment	**13.2**	15.2
Intangible assets	**3.2**	1.6
Total	**16.4**	16.8

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

25. Financial risk management

The Group's principal financial instruments comprise derivatives, cash and short-term deposits, external borrowings (including overdrafts), trade and other receivables, and trade and other payables arising directly from operations.

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, share price risk and interest rate risk), credit risk, liquidity risk and capital risk.

Risk management is carried out by the Group treasury department (Group Treasury) based on forecast business requirements to reduce financial risk and to ensure sufficient liquidity is available to meet foreseeable needs and to invest in cash and cash equivalents safely and profitably. Group Treasury does not operate as a profit centre and transacts only in relation to the underlying business requirements. The policies of Group Treasury are reviewed and approved by the Board of Directors. The Group uses derivative instruments to hedge certain risk exposures.

<u>Market risk</u>

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures.

The Group's Income Statement is affected by transactions denominated in foreign currency. To reduce exposure to currency fluctuations, the Group has a policy of hedging foreign currency denominated transactions by entering into forward foreign exchange contracts (see note 17). These transactions are recorded as cash flow hedges. The Group's foreign currency transactions arise principally from purchases and sales of inventory.

The Group's treasury risk management policy is to hedge anticipated cash flows in each major foreign currency that qualify as 'highly probable' forecast transactions for hedge accounting purposes within the current or previous year. Currently, the Group does not hedge intercompany foreign currency transactions.

The Group monitors the desirability of hedging the net assets of overseas subsidiaries when translated into Sterling for reporting purposes. The Group uses forward foreign exchange contracts to hedge net assets of overseas subsidiaries, relating to surplus cash whose remittance is foreseeable. The outstanding net investment hedges as at 31 March 2017 had a principal value of KRW 28.5bn (£20.3m) and CNY 471m (£54.6m), (2016: KRW 42.7bn (£26.0m) and CNY nil).

At 31 March 2017, the Group has performed a sensitivity analysis to determine the effect of Sterling strengthening/weakening by 20% (2016: 20%) against other currencies with all other variables held constant. The effect on translating foreign currency denominated net cash, trade, intercompany and other financial receivables and payables and financial instruments at fair value through profit or loss would have been to decrease/increase operating profit for the year by £18.2m (2016: decrease/increase £16.5m). The effect on translating forward foreign exchange contracts designated as cash flow hedges would have been to decrease/increase equity by £7.6m (2016: decrease/increase £11.5m) on a post-tax basis.

The following table shows the extent to which the Group has monetary assets and liabilities at the year end in currencies other than the local currency of operation, after accounting for the effect of any specific forward foreign exchange contracts used to manage currency exposure. Monetary assets and liabilities refer to cash, deposits, borrowings and other amounts to be received or paid in cash. Amounts exclude intercompany balances which eliminate on consolidation. Foreign exchange differences on retranslation of these assets and liabilities are recognised in 'Net operating expenses' with the exception of the put option liability over the non-controlling interest which is recognised in 'Other financing income and charges'.

	As at 31 March 2017			As at 31 March 2016		
	Monetary assets	**Monetary liabilities**	**Net**	Monetary assets	Monetary liabilities	Net
	£m	**£m**	**£m**	£m	£m	£m
Sterling	**1.5**	**(0.6)**	**0.9**	0.2	(0.6)	(0.4)
US Dollar	**37.0**	**(14.3)**	**22.7**	41.4	(11.0)	30.4
Euro	**33.7**	**(32.7)**	**1.0**	44.5	(36.4)	8.1
Chinese Yuan Renminbi[1]	**8.4**	**–**	**8.4**	0.4	(47.5)	(47.1)
Other currencies	**3.6**	**(3.9)**	**(0.3)**	5.2	(2.6)	2.6
Total	**84.2**	**(51.5)**	**32.7**	91.7	(98.1)	(6.4)

1 The balance at 31 March 2016 includes the put option liability over the non-controlling interest (refer to note 19). The value of this liability was £nil at 31 March 2017.

25. Financial risk management (continued)

Market risk (continued)

Share price risk

The Group is exposed to employer's national insurance liability due to the implementation of various employee share incentive schemes.

To reduce exposure to fluctuations in the employer's national insurance liability due to movements in the Group's share price, the Group has a policy of entering into equity swaps at the time of granting share options and awards. The Group does not seek hedge accounting treatment for equity swaps. The Group monitors its exposure to fluctuations in the employer's national insurance liability on an ongoing basis. The net impact of an increase/decrease in the share price of 50.0p would have resulted in an increase/decrease in profit after tax of £nil (2016: £nil).

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash, short-term deposits and external borrowings (including overdrafts).

The floating rate financial liabilities at 31 March 2017 are £34.3m (2016: £51.5m). This includes cash pool overdraft balances of £31.3m (2016: £44.9m) which are offset by cash balances for the purpose of interest calculations. At 31 March 2017 the remaining borrowings were £3.0m (2016: £6.6m) and any change in interest rates would not significantly impact profit.

The floating rate financial assets as at 31 March 2017 comprise short-term deposits of £574.8m (2016: £429.7m), interest bearing current accounts of £34.2m (2016: £41.7m) and cash pool asset balances of £32.9m (2016: £45.4m). At 31 March 2017, if interest rates on floating rate financial assets had been 100 basis points higher/lower (2016: 100 basis points), excluding the impact on cash pool asset balances and with all other variables held constant, post-tax profit for the year would have been £3.9m (2016: £3.6m) higher/lower, as a result of higher/lower interest income.

Credit risk

The Group has no significant concentrations of credit risk. The trade receivables balance is spread across a large number of different customers with no single debtor representing more than 7% of the total balance due (2016: 10%). The Group has policies in place to ensure that wholesale sales are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards. In addition, receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant and default rates have historically been very low. An ageing of overdue receivables is included in note 15.

During the year ended 31 March 2013 the Group entered into a retail leasing arrangement in the Republic of Korea. As part of this arrangement, a KRW 27bn (£19.3m) 15 year interest-free loan was provided to the landlord. The Group holds a registered mortgage over the leased property for the equivalent value of the loan which acts as collateral. At 31 March 2017 the discounted fair value of the loan is £14.8m (2016: £13.9m). The book value of the loan, recorded at amortised cost, is £13.3m (2016: £11.0m). Other than this arrangement, the Group does not hold any other collateral as security. The maximum exposure to credit risk at the reporting date with respect to trade and other receivables is approximated by the carrying amount on the Balance Sheet.

With respect to credit risk arising from other financial assets, which comprise cash and short-term deposits and certain derivative instruments, the Group's exposure to credit risk arises from the default of the counterparty with a maximum exposure equal to the carrying value of these instruments. The Group has policies that limit the amount of credit exposure to any financial institution and only deposits funds with independently rated financial institutions with a minimum rating of 'A' other than where required for operational purposes. A total of £13.4m (2016: £49.1m) was held with institutions with a rating below 'A' at 31 March 2017, of which £nil (2016: £38.6m) was held in a UK government majority owned institution. These amounts are monitored on a weekly basis and regularly reported to the Board.

The Group has deposited CHF 0.3m (2016: CHF 0.3m), AED 0.3m (2016: AED 0.3m) and GBP nil (2016: GBP 0.3m) which is held as collateral at a number of European banks.

25. Financial risk management (continued)

Liquidity risk

The Group's financial risk management policy aims to ensure that sufficient cash is maintained to meet foreseeable needs and close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available. For further details of this, see note 21.

All short-term trade and other payables, accruals, bank overdrafts and borrowings mature within one year or less. The carrying value of all financial liabilities due in less than one year is equal to their contractual undiscounted cash flows.

The maturity profile of the contractual undiscounted cash flows of the Group's non-current financial liabilities, excluding derivatives used for hedging, is as follows:

	As at 31 March 2017 £m	As at 31 March 2016 £m
In more than 1 year, but not more than 2 years	**13.0**	10.0
In more than 2 years, but not more than 3 years	**8.7**	5.0
In more than 3 years, but not more than 4 years	**9.5**	4.8
In more than 4 years, but not more than 5 years	**8.2**	83.7
In more than 5 years	**19.6**	16.7
Total financial liabilities	**59.0**	120.2

Other non-current financial liabilities relate to other payables, onerous lease provisions and the put option liability over non-controlling interests.

Capital risk

The Board reviews the Group's capital allocation policy annually. Our capital allocation framework defines our priorities for uses of cash, underpinned by our principle to maintain a strong balance sheet with solid investment grade credit metrics. The framework has four priorities:

- re-investment in the business to drive organic growth;
- maintaining a progressive dividend policy;
- continuing to pursue selective strategic investment; and
- to the extent that there is surplus capital to these needs, provide additional returns to shareholders.

At 31 March 2017, the Group had net cash of £809.2m (2016: £660.3m) and total equity excluding non-controlling interests of £1,692.5m (2016: £1,565.0m). The Group has access to a facility of £300m which was undrawn at 31 March 2017. For further details refer to note 21.

In May 2016, having considered the future cash generation, growth, productivity and investment plans, taking into consideration the current challenging external environment and relevant financial parameters, the Group decided to commence a share buyback programme of up to £150m. During the year ended 31 March 2017, the Company entered into an agreement to purchase £100m of its own shares back as part of the share buy-back programme. At 31 March 2017 the Company had purchased £97.2m of its own shares including stamp duty. For further details refer to note 22.

26. Employee costs

Staff costs, including the cost of directors, incurred during the year are as shown below. Directors' remuneration, which is separately disclosed in the Directors' Remuneration Report on pages 87 to 111 and forms part of these financial statements, includes, for those share options and awards where performance obligations have been met, the notional gains arising on the future exercise but excludes the charge in respect of these share options and awards recognised in the Group Income Statement.

	Year to 31 March 2017 £m	Year to 31 March 2016[1] £m
Wages and salaries	**408.3**	374.0
Termination benefits[2]	**10.5**	2.5
Social security costs	**48.8**	37.7
Share-based compensation (all awards and options settled in shares)	**13.1**	(0.3)
Other pension costs	**13.7**	13.6
Total	**494.4**	427.5

1 Employee costs for the year ended 31 March 2016 have been re-presented to include employee-related costs within cost of sales.
2 Termination benefits include £9.7m (2016: £nil) relating to restructuring costs, of which £1.6m (2016: £nil) relate to related parties. Refer to note 6 and note 27 for further details.

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

	Number of employees	
	Year to 31 March 2017	Year to 31 March 2016
EMEIA[1]	**5,062**	5,310
Americas	**1,954**	2,005
Asia Pacific	**2,812**	2,866
Total	**9,828**	10,181

1 EMEIA comprises Europe, Middle East, India and Africa.

Share options granted to directors and employees

The Group operates a number of equity-settled share-based compensation schemes for its directors and employees. Details of each of these schemes are set out in this note. The share option schemes have been valued using the Black-Scholes option pricing model.

The key inputs used in the Black-Scholes pricing model to determine the fair value include the share price at the commencement date; the exercise price attached to the option; the vesting period of the award; an appropriate risk-free interest rate; a dividend yield discount for those schemes that do not accrue dividends during the course of the vesting period; and an expected share price volatility, which is determined by calculating the historical annualised standard deviation of the market price of Burberry Group plc shares over a period of time, prior to the grant, equivalent to the vesting period of the option.

The Burberry Senior Executive Restricted Share Plan ('the RSP'), which has market-based performance conditions attached, has been valued using the Black-Scholes option pricing model with a discount applied to this value, based on information obtained by running a Monte Carlo simulation model on the scheme.

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

26. Employee costs (continued)

Savings-Related Share Option Scheme

In the financial year ended 31 March 2007, a Savings-Related Share Option Scheme (Sharesave) offering Burberry Group plc ordinary shares was introduced for employees.

On 16 June 2016, further options were granted under this scheme with a three-year and five-year vesting period offered to employees. The savings contract commencement date for this grant was 1 September 2016. These options are exercisable for a period of up to six months from 1 September 2019 and 1 September 2021 for the three-year and five-year schemes respectively, with vesting dependent on continued employment, as well as a saving obligation over the vesting period. The exercise price for these options is calculated at a 20% discount to market price over the three dealing days preceding the invitation date. Three day averages are calculated by taking middle market quotations of a Burberry Group plc share from the London Stock Exchange.

The fair value per option for the three-year and five-year grants is £0.94 and £0.45 respectively. The fair values have been determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

	3 year grant	5 year grant
Share price at contract commencement date	£10.69	£10.69
Exercise price	£8.72	£8.72
Life of award	3 years	5 years
Dividend yield	3.74%	3.74%
Expected volatility	26.3%	33.0%
Risk-free interest rate	0.39%	0.62%

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

	Weighted average exercise price	**Year to 31 March 2017**	Weighted average exercise price	Year to 31 March 2016
Outstanding at 1 April	**1,262.5p**	**1,153,641**	1,175.0p	1,161,489
Granted during the year	**872.0p**	**803,345**	1,364.0p	471,453
Lapsed and forfeited during the year	**1,156.7p**	**(208,727)**	1,241.4p	(172,524)
Withdrawn during the year	**1,228.7p**	**(382,993)**	1,229.6p	(97,331)
Exercised during the year	**1,182.6p**	**(136,666)**	1,038.6p	(209,446)
Outstanding at 31 March	**1,044.4p**	**1,228,600**	1,262.5p	1,153,641
Exercisable at 31 March	**1,220.0p**	**267**	998.9p	4,297

The weighted average share price at the respective exercise dates in the year was £14.76 (2016: £13.18).

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

Option term	**Exercise price**	**Number of shares under option as at 31 March 2017**	Number of shares under option as at 31 March 2016
30 June 2010 – 28 February 2016	**557.0p**	**–**	826
24 June 2011 – 28 February 2017	**1,049.0p**	**–**	35,445
22 June 2012 – 28 February 2016	**1,104.0p**	**–**	3,471
22 June 2012 – 28 February 2018	**1,104.0p**	**7,885**	11,035
20 June 2013 – 28 February 2017	**1,220.0p**	**267**	167,118
20 June 2013 – 28 February 2019	**1,220.0p**	**6,446**	11,974
20 June 2014 – 28 February 2018	**1,216.0p**	**285,935**	479,716
20 June 2014 – 28 February 2020	**1,216.0p**	**13,582**	31,737
18 June 2015 – 28 February 2019	**1,364.0p**	**200,566**	387,987
18 June 2015 – 28 February 2021	**1,364.0p**	**12,172**	24,332
16 June 2016 – 28 February 2020	**872.0p**	**644,614**	–
16 June 2016 – 28 February 2022	**872.0p**	**57,133**	–
Total		**1,228,600**	1,153,641

26. Employee costs (continued)

All Employee Share Plan

Employees are offered awards of ordinary shares in the Company at a £nil exercise price under an All Employee Share Plan. All awards vest after three years and the vesting of these share awards is dependent on continued employment over the vesting period.

On 28 July 2016, 255,850 ordinary shares were granted under this scheme (2016: 223,140). The fair value of the awards granted is £13.20, determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

Share price at grant date	£13.20
Exercise price	£nil
Life of award	Equivalent to vesting period
Expected volatility	26.6%
Risk-free interest rate	0.12%

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**534,220**	501,040
Granted during the year	**255,850**	223,140
Lapsed and forfeited during the year	**(124,675)**	(96,810)
Exercised during the year	**(109,817)**	(93,150)
Outstanding at 31 March	**555,578**	534,220
Exercisable at 31 March	**84,073**	81,730

The weighted average share price at the respective exercise dates in the year was £13.76 (2016: £15.28).

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

Term of the award	**Number of awards as at 31 March 2017**	Number of awards as at 31 March 2016
12 July 2002 – 18 July 2082[1]	**2,200**	2,500
30 August 2003 – 18 July 2082[1]	**2,450**	2,650
20 August 2004 – 18 July 2082[1]	**5,200**	5,800
1 September 2005 – 18 July 2082[1]	**3,000**	3,880
19 July 2010 – 18 July 2082[1]	**12,220**	19,560
18 July 2011 – 18 July 2082[1]	**9,810**	18,090
18 July 2012 – 18 July 2082[1]	**20,190**	29,220
18 July 2012 – 18 September 2015	**–**	30
17 July 2013 – 18 July 2082[1]	**29,003**	51,510
17 July 2013 – 17 October 2016	**–**	67,050
31 July 2014 – 18 July 2082[1]	**50,610**	61,980
31 July 2014 – 31 October 2017	**63,600**	83,310
30 July 2015 – 18 July 2082[1]	**62,005**	77,640
30 July 2015 – 30 October 2018	**82,560**	111,000
28 July 2016 – 18 July 2082[1]	**84,840**	–
28 July 2016 – 28 October 2019	**127,890**	–
Total	**555,578**	534,220

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

26. Employee costs (continued)

The Burberry Group plc Executive Share Plan 2014 ('the ESP')

The ESP was set up in the year ended 31 March 2015, to replace the previous two long-term incentive plans – the Burberry Co-Investment Plan and the RSP. The ESP aims to reward executives and senior management for sustainable long-term performance and successful execution of the Group's long-term strategy.

Under the ESP, participants are awarded shares, structured as nil-cost options, up to a maximum value of four times base salary per annum. Awards may be subject to a combination of non-market performance conditions, including compound annual Group adjusted PBT growth; compound annual Group revenue growth; and average retail/wholesale adjusted return on invested capital ('ROIC'). Performance conditions will be measured over a three-year period from the last reporting period prior to the grant date. Each performance condition will stipulate a threshold and maximum target. The portion of the scheme relating to each performance target will vest 25% if the threshold target is met, and then on a straight-line basis up to 100% if the maximum target is met. Dependent on the performance of the vesting conditions, 50% of the award will vest on the third anniversary of the grant date, and the remaining 50% of the award will vest on the fourth anniversary of the grant date.

Awards made to the Senior Leadership Team will be subject to all three non-market performance conditions and will be measured 50% based on annual adjusted PBT growth; 25% based on annual revenue growth; and 25% based on adjusted retail/wholesale ROIC.

Awards made to Senior Management in 2015 will be subject to two non-market performance conditions and will be measured 75% based on annual adjusted PBT growth and 25% based on annual revenue growth. Awards made to Senior Management during the current year will be subject to two non-market performance conditions and will be measured 50% based on annual adjusted PBT growth and 50% based on annual revenue growth.

Awards made to Management will not be subject to performance conditions apart from continued service during the vesting period.

During the year, the following grants were made under the ESP:

					Targets	
Date of grant	Options granted	Fair value	Participant group	Performance conditions	Threshold	Maximum
30 January 2017	1,324,647	£16.26	Senior Leadership Team	3-year growth in Group adjusted PBT	1%	6%
				3-year growth in Group revenue	1%	5.5%
				3-year average retail/wholesale adjusted ROIC	13.9%	15.2%
30 January 2017	1,044,596	£16.26	Senior Management	3-year growth in Group adjusted PBT	1%	6%
				3-year growth in Group revenue	1%	5.5%
30 January 2017	201,670	£16.26	Management	Continued service	N/A	N/A

The annual ESP grant usually occurs in July, aligned with the timing of the Group performance review process. The grant date for the 2016 ESP award was delayed until January 2017 as a result of the on-going productivity and efficiency agenda, to allow appropriate targets to be set and agreed. For all participants apart from executive directors, it was agreed that the vesting dates will be aligned with the standard performance review timetable, meaning that for those participants, dependent on the performance conditions being met, 50% of the grant will vest on 22 July 2019 and 50% of the grant will vest on 22 July 2020. For the executive directors, the vesting dates fall on the third and fourth anniversaries of the grant date.

The fair values for the above grants have been determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

	30 January 2017
Share price at contract commencement date	£16.26
Exercise price	£nil
Life of award	Equivalent to vesting period
Expected volatility	26.5%
Risk-free interest rate	0.43%

Obligations under this plan will be met either by market purchase shares via the ESOP trust or by the issue of ordinary shares of the Company.

26. Employee costs (continued)

The Burberry Group plc Executive Share Plan 2014 ('the ESP') (continued)

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**3,238,480**	–
Granted during the year	**2,570,913**	3,408,928
Lapsed and forfeited during the year	**(701,016)**	(170,448)
Exercised during the year	**(4,121)**	–
Outstanding at 31 March	**5,104,256**	3,238,480
Exercisable at 31 March	**–**	–

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

Term of the award	**Number of awards as at 31 March 2017**	Number of awards as at 31 March 2016
22 July 2015 – 21 July 2025	**2,497,624**	3,100,064
18 November 2015 – 17 November 2025	**102,294**	138,416
30 January 2017 – 30 January 2027	**2,504,338**	–
Total	**5,104,256**	3,238,480

Burberry Senior Executive Restricted Share Plan 2004 ('the RSP')

The final grant under the RSP was made on 12 June 2014.

Under the RSP participants were awarded shares, structured as nil-cost options, up to a maximum value of two times base salary per annum. Certain participants were granted awards subject to both market and non-market performance conditions, while other participants were granted awards subject to non-market performance conditions only. A limited number of awards were granted without performance conditions.

The market performance condition is a measure of TSR performance relative to sector peers. The non-market performance condition is compound annual adjusted PBT growth over a three-year period from the date of grant.

Awards subject to both market and non-market performance conditions will vest in full if the Group achieves at least upper quartile TSR relative to its global peers, and if the maximum adjusted PBT growth target is achieved. A proportion of the award (12.5%) vests if TSR performance exceeds the median of the peer group, or if the threshold adjusted PBT growth target is achieved. Vesting against each metric occurs on a straight-line basis between the threshold and maximum. None of the award vests if TSR performance is below the median of the peer group and if the adjusted PBT growth is below the threshold. Of the shares which meet the performance criteria, 50% vest after three years. The remaining 50% vest in two equal tranches on the fourth and fifth anniversaries of the date of grant.

Awards subject to non-market performance conditions only will vest in full if the maximum adjusted PBT growth target is achieved. A proportion of the award (25%) vests if the threshold adjusted PBT growth target is achieved. Vesting occurs on a straight-line basis between the threshold and maximum. None of the award vests if the adjusted PBT growth is below the threshold. Of the shares which meet the performance criteria, 50% vest after three years. The remaining 50% vest in two equal tranches on the fourth and fifth anniversaries of the date of grant.

26. Employee costs (continued)

Burberry Senior Executive Restricted Share Plan 2004 ('the RSP') (continued)

The threshold and maximum adjusted PBT growth targets for the RSP awards that are still within the initial three-year vesting period as at 31 March 2017 are:

		3 year compound adjusted PBT growth targets	
Year of grant and participant group	**Number of awards outstanding as at 31 March 2017**	**Threshold**	**Maximum**
2014 – market and non-market conditions	**722,141**	5%	15%
2014 – non-market conditions only	**897,545**	5%	15%
2014 – no performance conditions	**200,680**	N/A	N/A

Obligations under this plan will be met either by market purchase shares via the ESOP trust or by the issue of ordinary shares of the Company.

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**5,190,300**	7,913,082
Lapsed and forfeited during the year	**(2,404,237)**	(1,959,768)
Exercised during the year	**(517,675)**	(763,014)
Outstanding at 31 March	**2,268,388**	5,190,300
Exercisable at 31 March	**291,462**	401,183

The weighted average share price at the respective exercise dates in the year was £13.60 (2016: £15.12).

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

Term of the award	**Number of awards as at 31 March 2017**	Number of awards as at 31 March 2016
10 August 2006 – 9 August 2016	**–**	4,463
27 November 2006 – 26 November 2016	**–**	2,124
11 June 2007 – 10 June 2017	**2,787**	6,612
25 June 2008 – 24 June 2018	**4,849**	15,817
1 June 2009 – 31 May 2019	**44,375**	67,092
10 June 2010 – 9 June 2020	**76,360**	122,342
22 November 2010 – 21 November 2020	**1,125**	1,500
20 June 2011 – 19 June 2021	**54,205**	230,262
21 November 2011 – 20 November 2021	**5,585**	15,522
13 June 2012 – 12 June 2022	**136,793**	305,939
16 November 2012 – 15 November 2022	**14,383**	34,101
14 June 2013 – 13 June 2023	**105,125**	1,966,666
17 June 2013 – 16 June 2023	**–**	243,542
25 November 2013 – 24 November 2023	**2,435**	22,656
12 June 2014 – 11 June 2024	**1,820,366**	2,151,662
Total	**2,268,388**	5,190,300

26. Employee costs (continued)

The Burberry Co-Investment Plan

The final award granted under the Burberry Co-Investment Plan was made on 12 June 2014.

Under the Burberry Co-Investment Plan, executive directors and certain senior management were able to defer receipt of all or part of their annual bonus and invest it in ordinary shares in the Company with up to a 2:1 match based on individual and Group performance during the year. The matching share awards do not vest for three years and are forfeited if the executive leaves within that period. The exercise price of these share awards is £nil. The awards are also subject to secondary performance conditions.

Awards granted in 2014 vest in full only if the Group achieves at least 10% per annum adjusted PBT growth over the three-year vesting period. A proportion of the award (25%) vests if growth in adjusted PBT achieves 5% per annum. Vesting occurs on a straight-line basis between the threshold and the maximum. None of the award vests if adjusted PBT growth is below 5% per annum.

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**1,560,519**	2,777,125
Lapsed and forfeited during the year	**(817,971)**	(318,647)
Exercised during the year	**(14,430)**	(897,959)
Outstanding at 31 March	**728,118**	1,560,519
Exercisable at 31 March	**41,213**	55,643

The weighted average share price at the respective exercise dates in the year was £12.69 (2016: £15.31).

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

Term of the award	**Number of awards as at 31 March 2017**	Number of awards as at 31 March 2016
18 July 2012 – 17 July 2017	**41,213**	55,643
14 June 2013 – 13 June 2018	**–**	714,365
12 June 2014 – 11 June 2019	**686,905**	790,511
Total	**728,118**	1,560,519

26. Employee costs (continued)

June 2013 One-off Grant

On 14 June 2013, options in respect of 1,000,000 ordinary shares were granted as a one-off award, with a £nil exercise price.

The options were granted on the basis that they would vest in three tranches: 20% exercisable on 15 July 2016; 40% exercisable on 15 July 2017; and the remaining 40% exercisable on 15 July 2018, dependent upon continued employment over the vesting period. Under the current arrangement, the first tranche now becomes exercisable on 15 July 2017 (or earlier upon termination of employment). Any vested but unexercised options will automatically lapse on 15 July 2019.

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**1,000,000**	1,000,000
Granted during the year	**–**	–
Outstanding at 31 March	**1,000,000**	1,000,000
Exercisable at 31 March	**–**	–

June 2014 One-off Grant

On 12 June 2014, options in respect of 500,000 ordinary shares were granted as a one-off award, with a £nil exercise price.

The options were granted on the basis that they are due to vest in three stages: 25% are exercisable on 31 July 2017; 25% are exercisable on 31 July 2018; and the remaining 50% are exercisable on 31 July 2019. Key strategic performance objectives linked to the long-term growth of the Group must be met in order for the options to vest. These performance conditions will be assessed at each of the relevant vesting dates, and each tranche will only vest to the extent that performance targets have been achieved at that date. Any vested but unexercised options will automatically lapse on 31 July 2020.

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**500,000**	500,000
Granted during the year	**–**	–
Outstanding at 31 March	**500,000**	500,000
Exercisable at 31 March	**–**	–

November 2015 One-off Grant

On 18 November 2015, options in respect of 73,000 ordinary shares were granted as a one-off award, with a £nil exercise price.

The options vest in three stages: 25,000 options on 1 July 2016; 30,000 options on 1 July 2017; and the remaining 18,000 options on 1 July 2018. The vesting of these options is dependent upon continued employment over the vesting period. Any vested but unexercised options will automatically lapse on 18 November 2025.

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**73,000**	–
Granted during the year	**–**	73,000
Exercised during the year	**(25,000)**	–
Outstanding at 31 March	**48,000**	73,000
Exercisable at 31 March	**–**	–

The share price on the date of exercise was £14.71.

26. Employee costs (continued)

November 2015 Exceptional Grant

On 18 November 2015, options in respect of 570,151 ordinary shares were granted as an exceptional one-off grant, with a £nil exercise price. On 30 January 2017, additional options in respect of 86,338 ordinary shares were granted under the same terms as the original November 2015 grant.

The options are due to vest in two stages: 50% exercisable on 15 December 2017; and the remaining 50% exercisable on 15 December 2018. The vesting of these options will be dependent upon continued employment as well as continued satisfactory performance. Any unvested options will automatically lapse on 18 November 2025.

The fair value of additional options granted on 30 January 2017 is £16.26, determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

	30 January 2017
Share price at contract commencement date	£16.26
Exercise price	£nil
Life of award	Equivalent to vesting period
Expected volatility	30.6%
Risk-free interest rate	0.2%

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

	Year to 31 March 2017	Year to 31 March 2016
Outstanding at 1 April	**570,151**	–
Granted during the year	**86,338**	570,151
Lapsed and forfeited during the year	**(112,558)**	–
Outstanding at 31 March	**543,931**	570,151
Exercisable at 31 March	**–**	–

January 2017 Exceptional Grant

On 30 January 2017, options in respect of 284,096 ordinary shares were granted as an exceptional one-off grant, with a £nil exercise price. The options are due to vest on 22 July 2018. Vesting of these options is dependent upon continued employment as well as satisfactory performance over the vesting period. Any vested unexercised options will automatically lapse on 22 December 2026.

The fair value of the award is £16.26, determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

	30 January 2017
Share price at contract commencement date	£16.26
Exercise price	£nil
Life of award	Equivalent to vesting period
Expected volatility	32.8%
Risk-free interest rate	0.1%

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

	Year to 31 March 2017
Outstanding at 1 April	**–**
Granted during the year	**284,096**
Outstanding at 31 March	**284,096**
Exercisable at 31 March	**–**

26. Employee costs (continued)

January 2017 One-off Awards

On 30 January 2017, options in respect of 240,000 ordinary shares were granted as two one-off awards, both with a £nil exercise price. The first award was for options in respect of 215,000 ordinary shares, and the second award was for options in respect of 25,000 ordinary shares.

Both awards are due to vest in three stages. The first award will vest in the following manner: 86,000 options exercisable on 22 July 2017; 64,500 options exercisable on 22 July 2018; and 64,500 options exercisable on 22 July 2019. The second award will vest in the following manner: 8,250 options exercisable on 27 March 2018; 8,250 options exercisable on 27 March 2019; and 8,500 options exercisable on 27 March 2020. The vesting of both of these awards is dependent upon continued employment over the vesting period. Any vested but unexercised options will automatically lapse on 30 January 2027.

The fair value of the first award is £16.26 and the fair value of the second award is £16.26. The fair values for both awards have been determined by applying the Black-Scholes option pricing model. The key factors used in determining the fair value were as follows:

	First award	Second award
Share price at contract commencement date	£16.26	£16.26
Exercise price	£nil	£nil
Life of award	Equivalent to vesting period	Equivalent to vesting period
Expected volatility	28.2%	26.9%
Risk-free interest rate	0.3%	0.4%

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

	Year to 31 March 2017
Outstanding at 1 April	**–**
Granted during the year	**240,000**
Outstanding at 31 March	**240,000**
Exercisable at 31 March	**–**

27. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Total compensation in respect of key management, who are defined as the Board of Directors and certain members of senior management, is considered to be a related party transaction.

The total compensation in respect of key management for the year was as follows:

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Salaries, short-term benefits and social security costs	**14.3**	9.1
Termination benefits	**1.6**	–
Post-employment benefits	**–**	0.1
Share based compensation (all awards and options settled in shares)	**5.5**	0.5
Total	**21.4**	9.7

There were no other material related party transactions in the period.

28. Subsidiary undertakings and investments

In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings as at 31 March 2017, including their country of incorporation and percentage share ownership, is disclosed below. Unless otherwise stated, all undertakings are indirectly owned by Burberry Group plc and operate in the country of incorporation. All the subsidiary undertakings have been consolidated as at 31 March 2017. In addition to the subsidiary undertakings listed below, the Group also holds an interest in 21.5% of the ordinary shares of Suitspain SL (36), which is incorporated in Spain and is currently in the process of liquidation.

Company name	Country of incorporation	Interest	Holding (%)
Burberry Pacific Pty Ltd (1)	Australia	Ordinary shares	100
Burberry (Austria) GmbH (2)	Austria	Ordinary shares	100
Sandringham Bahrain SPC[2] (3)	Bahrain	Ordinary shares	100
Burberry Antwerp N.V.(4)	Belgium	Ordinary shares	100
Burberry Brasil Comércio de Artigos de Vestuário e Acessórios Ltda (5)	Brazil	Ordinary shares	100
Burberry Canada Inc (6)	Canada	Common stock	100
Burberry (Shanghai) Trading Co., Ltd (7)	China	Ordinary shares	100
Burberry Czech Rep s.r.o. (8)	Czech Republic	Ordinary shares	100
Burberry France SASU (9)	France	Ordinary shares	100
Burberry (Deutschland) GmbH (10)	Germany	Ordinary shares	100
Burberry Asia Holdings Limited (11)	Hong Kong	Ordinary shares	100
Burberry Asia Limited (11)	Hong Kong	Ordinary shares	100
Burberry China Holdings Limited (11)	Hong Kong	Ordinary shares	100
Burberry Hungary kft (12)	Hungary	Ordinary shares	100
Burberry India Private Limited (13)	India	Ordinary shares	51
Burberry Ireland Investments (14)	Ireland	Ordinary A shares Ordinary B shares	100 100
Burberry Ireland Limited (14)	Ireland	Ordinary shares	100
Burberry Italy (Rome) SRL (15)	Italy	Ordinary shares	100
Burberry Italy SRL[1] (15)	Italy	Ordinary shares	100
Burberry Japan K.K. (16)	Japan	Ordinary shares	100
Burberry Al Kuwait General Trading Textiles and Accessories Company WLL[3] (17)	Kuwait	Ordinary shares	49
Burberry Macau Limited (18)	Macau	Ordinary quota	100
Burberry (Malaysia) Sdn. Bhd. (19)	Malaysia	Ordinary shares	100
Horseferry Mexico S.A. de C.V. (20)	Mexico	Ordinary (fixed) shares Ordinary (variable) shares	100 100
Horseferry Mexico Servicios Administrativos, S.A. de C.V. (20)	Mexico	Ordinary shares	100
Burberry Netherlands BV (21)	Netherlands	Ordinary shares	100
Burberry Qatar W.L.L[3] (22)	Qatar	Ordinary shares	49
Burberry Korea Limited (23)	Republic of Korea	Ordinary shares	100
Burberry Retail LLC (24)	Russian Federation	Participatory share	100
Burberry Saudi Company Limited (25)	Kingdom of Saudi Arabia	Ordinary shares	75
Burberry (Singapore) Distribution Co. PTE Ltd (26)	Singapore	Ordinary shares	100
Burberry (Spain) Retail SL (27)	Spain	Ordinary shares	100
Burberry Latin America Holdings, S.L. (27)	Spain	Ordinary shares	100
Burberry (Suisse) SA[1] (28)	Switzerland	Ordinary shares	100
Burberry (Taiwan) Co Ltd (29)	Taiwan	Ordinary shares	100
Burberry (Thailand) Limited (30)	Thailand	Ordinary shares	100
Burberry FZ-LLC (31)	United Arab Emirates	Ordinary shares	100
Burberry Middle East LLC[3] (32)	United Arab Emirates	Ordinary shares	49
Burberry (Espana) Holdings Limited (33)	United Kingdom	Ordinary shares	100
Burberry (No. 1) Unlimited (33)	United Kingdom	Ordinary shares	100
Burberry (No. 7) Unlimited (33)	United Kingdom	Ordinary shares	100
Burberry (Spain) Finance Limited[1] (33)	United Kingdom	Ordinary shares	100
Burberry (UK) Limited (33)	United Kingdom	Ordinary shares	100
Burberry Beauty Limited[1] (33)	United Kingdom	Ordinary shares	100
Burberry Distribution Limited (33)	United Kingdom	Ordinary shares	100
Burberry Europe Holdings Limited[1] (33)	United Kingdom	Ordinary shares	100
Burberry Finance Limited (33)	United Kingdom	Ordinary shares	100
Burberry Haymarket Limited[1] (33)	United Kingdom	Ordinary shares	100
Burberry Holdings Limited (33)	United Kingdom	Ordinary shares	100
Burberry International Holdings Limited[1] (33)	United Kingdom	Ordinary shares	100

28. Subsidiary undertakings and investments (continued)

Company name	Country of incorporation	Interest	Holding (%)
Burberry Italy Retail Limited[4] (33)	United Kingdom	Ordinary shares	100
Burberry Latin America Limited (33)	United Kingdom	Ordinary shares	100
Burberry Limited (33)	United Kingdom	Ordinary shares	100
Burberry London Limited (33)	United Kingdom	Ordinary shares	100
Burberry New York 2005 Limited (33)	United Kingdom	Ordinary shares	100
Burberry New York Unlimited (33)	United Kingdom	Ordinary A shares Ordinary B shares	100 100
Burberry Spain (UK) Limited (33)	United Kingdom	Ordinary shares	100
Burberry Treasury Limited (33)	United Kingdom	Ordinary shares	100
Burberry Wholesale 2005 Limited (33)	United Kingdom	Ordinary shares	100
Burberry Wholesale Unlimited (33)	United Kingdom	Ordinary A shares Ordinary B shares	100 100
Burberrys Limited[1] (33)	United Kingdom	Ordinary shares	100
Hampstead (UK) Limited[1] (33)	United Kingdom	Ordinary shares	100
Sweet Street Developments Limited (33)	United Kingdom	Ordinary shares	100
Temple Works Limited (33)	United Kingdom	Ordinary shares	100
The Scotch House Limited[1] (33)	United Kingdom	Ordinary shares	100
Thomas Burberry Holdings Limited[1] (33)	United Kingdom	Ordinary shares	100
Thomas Burberry Limited[1] (33)	United Kingdom	Ordinary shares	100
Woodrow-Universal Limited[1] (33)	United Kingdom	Ordinary shares	100
Woodrow-Universal Pension Trustee Limited[1] (33)	United Kingdom	Ordinary shares	100
Worldwide Debt Collections Limited (34)	United Kingdom	Ordinary shares	100
Burberry (Wholesale) Limited (35)	United States	Class X common stock Class Y common stock	100 100
Burberry Limited (35)	United States	Class X common stock Class Y common stock	100 100
Burberry North America, Inc (35)	United States	Common stock	100
Burberry USA Holdings Inc (35)	United States	Common stock	100
Burberry Warehousing Corporation (35)	United States	Common stock	100
Castleford Industries, Ltd (35)	United States	Series A common stock	100
Castleford Tailors, Ltd (35)	United States	Common stock	100

1 Held directly by Burberry Group plc.
2 The Group has an indirect holding of 100% of the issued share capital through a nominee.
3 The Group has a 100% share of profits of Burberry Middle East LLC as well as a 100% and 88% share of profits in Burberry Middle East LLC's subsidiaries in Kuwait and Qatar respectively. The Group has the power to control these companies via the terms of the shareholder agreement for Burberry Middle East LLC.
4 Operates principally in Italy.

Ref	Registered office address
(1)	Level 5, 343 George Street, Sydney NSW 2000, Australia
(2)	Kohlmarkt 2, 1010, Wien, Austria
(3)	Building 1A, Road 365 (Isa Al Kabeer Avenue), Manama Center 316, Unit 7, Moda Mall, Manama, Bahrain
(4)	2000 Antwerp, Schuttershofstraat 29, Belgium
(5)	Rua Do Rócio, 350 3º Andar, Vila Olimpia , São Paulo – SP, CEP 04552-000, Brazil
(6)	1 First Canadian Place, 100 King Street West, Suite 1600, Toronto ON M5X 1G5, Canada
(7)	33/F, Wheelock Square, 1717 Nanjing West Road, Jing'an District, Shanghai, China, 200040, China
(8)	Praha 1, Pařížská 11/67, 110 00, Czech Republic
(9)	56 rue du Faubourg Saint Honore, 75008, Paris, France
(10)	Konigsalle 50, D 40212, Dusseldorf, Germany
(11)	Suites 2201-02 & 11-14, 22/F Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
(12)	Horvath & Partners DLA Piper, MOMentum Office Complex, 49-51 Csorsz Street, Budapest, H-1124, Hungary
(13)	3-A-1 Taj Apartments, Rao Tula Ram Marg, New Delhi, 110022, India
(14)	Suite 9, Bunkilla Plaza, Bracetown Office Park, Clonee, County Meath, Ireland
(15)	Via Montenapoleone 12, 20121, Milan, Italy
(16)	Ginza YOMIKO Building, 1-8-14 Ginza, Chuo-Ku, Tokyo, 104-0061, Japan
(17)	Hawali, Block 4, Building, 26007, PO Box 99, Code 13001, Safat, Kuwait
(18)	Avenida Dr. Sun Yat Sen, s/n, Building One Central, 1st Floor, Shops 125-127, Macau Special Adminstrative Region, Macau
(19)	Suite 01-02B 1st Floor, Menara Keck Seng, 203 Jalan Bukit Bintang, 55100. Kuala Lumpur, Malaysia
(20)	Ejercito Nacional Mexicano 843b, Granada, Miguel Hidalgo, Distrito Federal 11520, Mexico
(21)	Pieter Cornelisz. Hoofstraat 48-50, 1071BZ, Amsterdam, Netherlands

28. Subsidiary undertakings and investments (continued)

Ref	Registered office address
(22)	PO Box 783, Doha, Qatar
(23)	(Cheongdam-dong) 459, Dosan-daero, Gangnam-gu, Seoul, Republic of Korea
(24)	Ulitsa Petrovka, 7, 107031, Moscow, Russian Federation
(25)	The Plaza Olaya Street, PO Box 2392, Riyadh, 12244, Saudi Arabia
(26)	50 Scotts Road #04-03, 228242, Singapore
(27)	Calle Valencia 640, 08026 Barcelona, Spain
(28)	c/o L&S Trust Services SA, 30 Route de Chêne, 1208, Genève, Switzerland
(29)	5 Floor, No 447, Chang Chun Road, Taipei, 105, Taiwan, Province of China
(30)	989 Siam Piwat Tower Building, 12A floor, Unit B1, B2 Ramai Road, Kwang Pathumwan, Khet Pathumwan, Bangkok, 10330, Thailand
(31)	Dubai Design District, Building 08, 3rd Floor, PO Box 333266, Dubai, United Arab Emirates
(32)	Unit 312 and 313, Third Floor, Building 08, Dubai Design District, Dubai, United Arab Emirates
(33)	Horseferry House, Horseferry Road, London, SW1P 2AW, United Kingdom
(34)	Adelaide House, London Bridge, London, EC4R 9HA, United Kingdom
(35)	444 Madison Avenue, New York NY 10022, United States
(36)	Travessera de gracia 11-p.5 08021, Barcelona, Spain

29. Transactions with non-controlling interests

During the year ended 31 March 2017, the Group entered into two transactions with non-controlling interests. The impact of these transactions has been presented in the financial statements of the Group in the following manner:

	Burberry Middle East transaction £m	**Burberry Shanghai transaction £m**	**Total £m**
Charge taken through statement of changes in equity	44.6	53.7	**98.3**
Cash outflow recognised in statement of cash flows	(15.1)	(53.7)	**(68.8)**

A liability in relation to the remaining deferred consideration to be paid on the Burberry Middle East transaction has also been recognised. Refer to note 19 for further details on the carrying value of the liability at 31 March 2017.

Burberry Middle East LLC

On 22 April 2016 the Group entered into an agreement to transfer the economic right to the non-controlling interest in Burberry Middle East LLC to the Group in consideration for payments to be made to the minority shareholder relating to an agreed percentage of the future revenue of Burberry Middle East LLC and its subsidiaries, Burberry Al Kuwait General Trading Textiles and Accessories Company WLL and Burberry Qatar WLL, over the period 2016 to 2023, together with fixed payments of AED 120.0m (£22.6m), relating to profits of Burberry Middle East LLC up to 31 March 2016, to be paid over the period 2016 to 2019.

In the judgement of management, the fixed payments of AED 120.0m are most appropriately treated as part of the consideration for purchasing the non-controlling interest in Burberry Middle East LLC. Therefore the transaction has been accounted for as a purchase of the non-controlling interest in Burberry Middle East LLC and its subsidiaries by the Group, for fixed and contingent deferred consideration, with the exception of a 12% interest in Burberry Qatar WLL which will continue to be held by another minority shareholder.

The present value of the fixed and contingent deferred consideration in total, at the date of the transaction, was estimated to be AED 236.0m (£44.6m). Non-controlling interests with a book value of £25.5m were transferred to retained earnings. Deferred consideration of AED 80.7m (£15.1m) was subsequently settled in the period.

Burberry (Shanghai) Trading Co., Ltd

On 1 August 2016, the Group acquired the remaining 15% economic interest in its business in China, which was held by Sparkle Roll Holdings Ltd, a non-Group company, for consideration of CNY 470.9m (£53.7m), through the exercise of a call option held by the Group. The transaction has been accounted for as a purchase of the 15% non-controlling interest in Burberry (Shanghai) Trading Co., Ltd, for consideration of £53.7m. Non-controlling interests with a book value of £27.7m were transferred to retained earnings.

The Group had also granted a put option over the same 15% economic interest to Sparkle Retail Holdings Ltd which was exercisable after 1 September 2020. The net present value of the expected put option payment was held as a non-current financial liability. Upon exercise of the call option by the Group, the put option expired and as a result, the value of the liability at the date of exercise, being £51.0m, was transferred directly to retained earnings.

30. Contingent liabilities
In a number of jurisdictions the Group is subject to claims against it and to tax audits. These typically relate to Value Added Taxes, sales taxes, customs duties, corporate taxes, transfer pricing, payroll taxes, various contractual claims and other matters. During the year, the Group reached a resolution of its dispute with the Spanish tax authorities regarding the tax treatment of interest paid during the year ended 31 March 2005. Where appropriate, the estimated cost of known obligations have been provided in these financial statements in accordance with the Group's accounting policies but these matters are inherently difficult to quantify. While changes to the amounts that may be payable could be material to the results or cash flows of the Group in the period in which they are recognised, the Group does not currently expect the outcome of these contingent liabilities to have a material effect on the Group's financial condition.

31. Events after the balance sheet date
On 3 April 2017 Burberry entered into an agreement with Coty Geneva SARL Versoix (Coty) to grant Coty a licence for its fragrance and beauty products and to transfer Burberry's Beauty operations to Coty. Under this agreement, Coty will make an upfront payment to Burberry of £130m for the licence and related transfer of the Beauty operations. Coty will also pay Burberry for assets transferring, principally inventory, estimated to be approximately £50m subject to any completion adjustments. Burberry will receive further payments, relating to royalties, over the term of the licence.

This agreement is expected to complete in October 2017. Burberry will receive the above sums on completion of the transaction. Associated costs will be incurred, currently estimated to be £30m. The licence agreement and the business transfer will be accounted for in the financial statements for the year ending 31 March 2018. Some of the costs arising in relation to the transaction have been incurred and recognised in the current period (refer to note 6).

	Continuing operations				
Year to 31 March	2013	2014	2015	2016	**2017**
Revenue by channel	£m	£m	£m	£m	**£m**
Retail	1,416.6	1,622.6	1,807.4	1,837.7	**2,127.2**
Wholesale	472.7	628.0	648.1	634.6	**613.9**
Retail/Wholesale	1,889.3	2,250.6	2,455.5	2,472.3	**2,741.1**
Licensing	109.4	79.2	67.7	42.4	**24.9**
Total revenue	1,998.7	2,329.8	2,523.2	2,514.7	**2,766.0**
Profit by channel	£m	£m	£m	£m	**£m**
Retail/Wholesale	335.6	393.5	399.2	380.9	**437.0**
Licensing	92.5	66.8	56.0	36.9	**21.7**
Adjusted operating profit[1]	428.1	460.3	455.2	417.8	**458.7**
Segmental analysis	%	%	%	%	**%**
Retail/Wholesale gross margin	70.6	70.2	69.2	69.6	**69.6**
Retail/Wholesale adjusted operating expenses as a percentage of sales[1]	52.8	52.7	52.9	54.2	**53.7**
Retail/Wholesale adjusted operating margin[1]	17.8	17.5	16.3	15.4	**15.9**
Licensing adjusted operating margin	84.6	84.3	82.7	87.0	**87.1**
Summary profit analysis	£m	£m	£m	£m	**£m**
Adjusted operating profit[1]	428.1	460.3	455.2	417.8	**458.7**
Net finance (charge)/income[1]	(0.3)	0.7	0.6	2.8	**3.7**
Adjusted profit before taxation[1]	427.8	461.0	455.8	420.6	**462.4**
Adjusting items	(77.1)	(16.6)	(11.2)	(5.0)	**(67.6)**
Profit before taxation	350.7	444.4	444.6	415.6	**394.8**
Taxation	(91.5)	(112.1)	(103.5)	(101.0)	**(107.1)**
Non-controlling interest	(4.9)	(9.8)	(4.8)	(5.1)	**(0.9)**
Attributable profit	254.3	322.5	336.3	309.5	**286.8**
Retail/Wholesale revenue by product division	£m	£m	£m	£m	**£m**
Accessories[2]	729.1	816.1	892.5	901.7	**1,033.2**
Womens	618.2	684.0	743.0	729.0	**791.9**
Mens	464.2	520.8	557.5	548.4	**623.5**
Childrens/Other	72.6	78.4	77.7	90.7	**108.1**
Beauty	5.2	151.3	184.8	202.5	**184.4**
Retail/Wholesale revenue by destination	£m	£m	£m	£m	**£m**
Asia Pacific	745.3	870.3	938.1	932.9	**1,069.0**
EMEIA[3]	680.7	811.5	869.0	878.5	**991.2**
Americas	463.3	568.8	648.4	660.9	**680.9**
Financial KPIs					
Total revenue growth[4]	+8%	+17%	+11%	-1%	**-2%**
Adjusted PBT growth[1,4]	+13%	+8%	+7%	-10%	**-21%**
Adjusted retail/wholesale return on invested capital (ROIC)[1]	19.0%	19.6%	17.9%	14.7%	**15.4%**
Comparable store sales growth	+5%	+12%	+9%	-1%	**+1%**
Adjusted retail/wholesale operating margin[1]	17.8%	17.5%	16.3%	15.4%	**15.9%**
Adjusted diluted EPS growth[1]	+14%	+8%	+2%	-9%	**+11%**

Year to 31 March **Earnings and dividends**	2013 pence per share	2014 pence per share	2015 pence per share	2016 pence per share	**2017** **pence** **per share**
Adjusted earnings per share – diluted[1]	70.0	75.4	76.9	69.9	**77.4**
Earnings per share – diluted	57.0	72.1	75.1	69.4	**64.9**
Diluted weighted average number of ordinary shares (millions)	446.5	447.3	447.8	446.1	**442.2**
Dividend per share (on a paid basis)	26.0	29.8	32.9	35.7	**37.3**

1 Excludes the impact of adjusting items.

2 The Accessories revenue for the year ended 31 March 2013 has been restated to exclude Beauty retail sales.

3 EMEIA comprises Europe, Middle East, India and Africa. As a result of an internal reorganisation, the Europe and Rest of World divisions were integrated to form EMEIA, effective from 1 April 2013. The results for the year ended 31 March 2013 have been re-presented to reflect this organisational change.

4 Growth rate is year-on-year underlying change, i.e. at constant exchange rates.

Year to 31 March **Net Cash Flow**	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Adjusted operating profit[1]	428.1	460.3	455.2	417.8	**458.7**
Restructuring spend	(1.0)	(0.7)	–	–	**(16.7)**
Depreciation and amortisation[1]	111.2	123.7	123.7	132.2	**144.0**
Employee share scheme costs	24.9	25.4	21.0	(0.3)	**13.1**
Proceeds/(payment) on equity swap contracts	–	15.7	(0.2)	(1.6)	**–**
(Increase)/decrease in inventories	(39.2)	(68.2)	(15.1)	(49.3)	**8.4**
(Increase)/decrease in receivables	(32.0)	(73.8)	(43.8)	(31.7)	**19.7**
Increase in payables and provisions[1]	17.6	42.3	19.7	9.1	**27.6**
Other non-cash items	13.4	10.8	7.6	26.8	**33.8**
Cash flow from operations	523.0	535.5	568.1	503.0	**688.6**
Net interest	0.9	0.8	1.2	3.1	**3.7**
Tax paid	(99.0)	(111.1)	(114.4)	(94.8)	**(131.6)**
Net cash flow from operations	424.9	425.2	454.9	411.3	**560.7**
Capital expenditure	(175.9)	(154.0)	(155.7)	(138.0)	**(104.1)**
Proceeds from disposal of non-current assets	–	3.0	1.3	0.5	**8.5**
Free cash flow	249.0	274.2	300.5	273.8	**465.1**
Payment to terminate licence relationship	(144.1)	–	–	–	**–**
Capital contributions from JV partners	0.4	0.7	0.4	–	**–**
Acquisitions	(1.0)	(2.6)	(3.4)	–	**(68.8)**
Dividends	(113.5)	(130.7)	(145.3)	(158.4)	**(164.5)**
Purchase of shares through share buy-back	–	–	–	–	**(97.2)**
Other	(45.3)	(21.8)	(16.4)	(8.7)	**(11.7)**
Exchange difference	12.8	(13.9)	13.9	1.4	**26.0**
Total movement in net cash	(41.7)	105.9	149.7	108.1	**148.9**

Net cash	296.6	402.5	552.2	660.3	**809.2**

As at 31 March Balance Sheet	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Intangible assets	210.2	195.4	193.5	189.6	**170.1**
Property, plant and equipment	409.1	398.4	436.5	426.2	**399.6**
Inventories	351.0	419.8	436.6	486.7	**505.3**
Trade and other receivables	199.5	273.7	320.8	351.9	**352.0**
Trade and other payables	(447.8)	(507.2)	(523.1)	(501.9)	**(561.0)**
Taxation (including deferred taxation)	45.3	47.4	68.6	56.4	**83.7**
Net cash	296.6	402.5	552.2	660.3	**809.2**
Other net assets	(11.1)	(22.0)	(33.6)	(48.3)	**(61.1)**
Net assets	1,052.8	1,208.0	1,451.5	1,620.9	**1,697.8**

Reconciliation of Adjusted Retail/Wholesale ROIC	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Retail/Wholesale adjusted operating profit[1]	335.6	393.5	399.2	380.9	**437.0**
Adjusted effective tax rate[1]	25.8%	24.7%	23.4%	24.7%	**25.8%**
Retail/Wholesale adjusted operating profit after tax[1]	249.0	296.3	305.8	286.7	**324.3**
Net assets excluding licensing segment assets	1,048.6	1,202.2	1,448.9	1,617.4	**1,694.2**
Net cash	(296.6)	(402.5)	(552.2)	(660.3)	**(809.2)**
Assumed lease assets[2,3]	713.0	782.5	922.0	1,101.0	**1,197.0**
Exclude adjusting items:					
Licence intangible asset	(70.9)	(56.0)	(41.1)	(26.1)	**–**
Put option liability	55.0	51.3	54.4	45.8	**–**
Deferred consideration	–	–	–	–	**34.7**
Restructuring liabilities/other	1.9	1.5	0.8	–	**11.3**
Adjusted operating assets	1,451.0	1,579.0	1,832.8	2,077.8	**2,128.0**
Average operating assets	1,309.2	1,515.0	1,705.9	1,955.3	**2,102.9**
Adjusted Retail/Wholesale ROIC	19.0%	19.6%	17.9%	14.7%	**15.4%**

1 Excludes the impact of adjusting items.

2 Assumed operating lease assets and assumed operating lease debt are calculated as a factor of five times minimum operating lease payments, excluding the impact of charges and subsequent utilisations relating to onerous lease provisions. Net charges for onerous lease provisions during the year ended 31 March 2017 were £7.9m (2016: £20.1m) and £8.3m of existing onerous lease provisions were utilised (2016: £5.0m).

3 Assumed operating lease assets as at 31 March 2016 have been restated to adjust for the impact of utilisation of existing onerous lease provisions.

Report on the Company financial statements

Our opinion

In our opinion, Burberry Group plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company Balance Sheet as at 31 March 2017;
- the Company Statement of Changes in Equity for the year then ended; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based in the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report – Companies Act 2006 opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit
Our responsibilities and those of the directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 118, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and the Directors' Report, we consider those reports include the disclosures required by applicable legal requirements.

Other matters
We have reported separately on the Group financial statements of Burberry Group plc for the year ended 31 March 2017.

Paul Cragg
Senior Statutory Auditor,
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors,
London, 17 May 2017

	Note	As at 31 March 2017 £m	As at 31 March 2016 £m
Fixed assets			
Investments in subsidiaries	D	**1,808.4**	1,712.7
		1,808.4	1,712.7
Current assets			
Trade and other receivables – amounts falling due after more than one year	E	**423.8**	497.2
Trade and other receivables – amounts falling due within one year	E	**246.5**	57.1
Derivative assets maturing after more than one year		**1.1**	0.3
Derivative assets maturing within one year		**1.0**	0.2
Cash at bank and in hand		**0.3**	0.2
		672.7	555.0
Creditors – amounts falling due within one year	F	**(60.1)**	(59.6)
Derivative liabilities maturing within one year		**–**	(0.1)
Net current assets		**612.6**	495.3
Total assets less current liabilities		**2,421.0**	2,208.0
Creditors – amounts falling due after more than one year	F	**(804.9)**	(801.5)
Provisions for liabilities		**(1.0)**	(1.0)
Net assets		**1,615.1**	1,405.5
Equity			
Called up share capital	G	**0.2**	0.2
Share premium account		**211.4**	209.8
Capital reserve		**0.9**	0.9
Hedging reserve		**4.6**	4.6
Profit and loss account		**1,398.0**	1,190.0
Total equity		**1,615.1**	1,405.5

Profit for the year on ordinary activities, was £473.1m (2016: £460.1m). The directors consider that, at 31 March 2017, £499.8m (2016: £485.8m) of the profit and loss account is non-distributable.

The financial statements on pages 182 to 189 were approved by the Board on 17 May 2017 and signed on its behalf by:

Sir John Peace
Chairman

Julie Brown
Chief Operating and Chief Financial Officer

	Note	Called up share capital £m	Share premium account £m	Capital reserve £m	Hedging reserve £m	Profit and loss account £m	Total equity £m
Balance as at 31 March 2015		**0.2**	**207.6**	**0.9**	**4.1**	**898.8**	**1,111.6**
Profit for the year		–	–	–	–	460.1	460.1
Other comprehensive income:							
Tax on net investment hedges transferred to income		–	–	–	0.5	–	0.5
Total comprehensive income for the year		–	–	–	0.5	460.1	460.6
Employee share incentive schemes							
Value of share options granted		–	–	–	–	(0.3)	(0.3)
Exercise of share options		–	2.2	–	–	–	2.2
Purchase of own shares by ESOP trusts		–	–	–	–	(10.9)	(10.9)
Dividends paid in the year	H	–	–	–	–	(157.7)	(157.7)
Balance as at 31 March 2016		**0.2**	**209.8**	**0.9**	**4.6**	**1,190.0**	**1,405.5**
Profit for the year		–	–	–	–	473.1	473.1
Total comprehensive income for the year		–	–	–	–	473.1	473.1
Employee share incentive schemes							
Value of share options granted		–	–	–	–	13.1	13.1
Exercise of share options		–	1.6	–	–	–	1.6
Purchase of own shares							
Share buy-back		–	–	–	–	(100.5)	(100.5)
Held by ESOP trusts		–	–	–	–	(13.3)	(13.3)
Dividends paid in the year	H	–	–	–	–	(164.4)	(164.4)
Balance as at 31 March 2017		**0.2**	**211.4**	**0.9**	**4.6**	**1,398.0**	**1,615.1**

A. Basis of preparation
Burberry Group plc (the Company) is the parent Company of the Burberry Group. Burberry Group plc is a public company which is limited by shares and is listed on the London Stock Exchange. The Company's principal business is investment and it is incorporated and domiciled in the UK. The Company is registered in England and Wales and the address of its registered office is Horseferry House, Horseferry Road, London, SW1P 2AW. The Company is the sponsoring entity of The Burberry Group plc ESOP Trust and The Burberry Group plc SIP Trust (collectively known as the ESOP trusts). These financial statements have been prepared by including the ESOP trusts within the financial statements of the Company. The purpose of the ESOP trusts is to purchase shares of the Company in order to satisfy Group share-based payment arrangements.

Burberry Group plc and its subsidiaries (the Group) is a global luxury goods manufacturer, wholesaler and retailer. The Group also licenses third parties to manufacture and distribute products using the 'Burberry' trade marks. All of the companies which comprise the Group are controlled by the Company directly or indirectly.

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by derivative financial asset and derivative financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own Income Statement.

The preparation of the financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note C).

Financial Reporting Standard 101 – reduced disclosure exemptions
The Company has taken advantage of the applicable disclosure exemptions permitted by FRS 101 in the financial statements, which are summarised below:

Standard	Disclosure exemption
IFRS 7, 'Financial Instruments: Disclosures'	• Full exemption
IFRS 13, 'Fair Value Measurement'	• para 91-99 – disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities
IAS 1, 'Presentation of the Financial Statements'	• para 10(d) – statement of cash flows • para 10(f) – a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective statement of items in its financial statements, or when it reclassifies items in its financial statements • para 16 – statement of compliance with all IFRS • para 38 – present comparative information in respect of paragraph 79(a)(iv) of IAS 1 • para 38A – requirement for minimum of two primary statements, including cash flow statements • para 38B-D – additional comparative information • para 40A-D – requirements for a third statement of financial position • para 111 – cash flow statement information • para 134-136 – capital management disclosures
IAS 7, 'Statement of Cash Flows'	• Full exemption
IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'	• para 30-31 – requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective
IAS 24, 'Related Party Disclosures'	• para 17 – key management compensation • The requirements to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
IAS 36, 'Impairment of Assets'	• para 134(d)-134(f) and 135(c)-135(e)

B. Accounting policies

The following principal accounting policies have been applied in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated:

Going concern

Taking into account reasonable possible changes in trading performance and after making enquiries, the directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements for the year ended 31 March 2017.

Share schemes

The Group operates a number of equity-settled share-based compensation schemes, under which services are received from employees (including executive directors) as consideration for equity instruments of the Company. The cost of the share-based incentives is measured with reference to the fair value of the equity instruments awarded at the date of grant. Appropriate option pricing models, including Black-Scholes and Monte Carlo, are used to determine the fair value of the awards made.

The fair value takes into account the impact of any market performance conditions, but the impact of non-market performance conditions is not considered in determining the fair value on the date of grant. Vesting conditions which relate to non-market conditions are allowed for in the assumptions used for the number of options expected to vest. The estimate of the number of options expected to vest is revised at each balance sheet date.

In some circumstances, employees may provide services in advance of the grant date. The grant date fair value is estimated for the purposes of recognising the expense during the period between the service commencement period and the grant date.

The grant by the Company of options over its equity instruments to employees of subsidiary undertakings in the Group is treated as a capital contribution. In the Company's financial statements, the cost of the share-based incentives is recognised over the vesting period of the awards as an increase in investment in subsidiary undertakings, with a corresponding increase in equity. Where amounts are received from Group companies in relation to equity instruments granted to the employees of the subsidiary undertaking, the amount is derecognised from investments in Group companies, to the extent that it was initially treated as a capital contribution, with any remaining amounts recognised as an increase in equity.

When options and awards are exercised, they are settled either via issue of new shares in the Company, or through shares held in the ESOP trusts, depending on the terms and conditions of the relevant scheme. The proceeds received from the exercises, net of any directly attributable transaction costs, are credited to share capital and share premium. Share-based payments disclosures relevant to the Company are presented within note 26 to the consolidated financial statements.

Dividend distribution

Dividend distributions to Burberry Group plc's shareholders are recognised as a liability in the year in which the dividend becomes a committed obligation. Final dividends are recognised when they are approved by the shareholders. Interim dividends are recognised when paid.

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any provisions to reflect impairment in value.

Impairment of investments in subsidiaries

Investments in subsidiaries are not subject to amortisation and are tested annually for impairment. An impairment loss is recognised for the amount by which the carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

B. Accounting policies (continued)

Taxation

Tax expense represents the sum of the tax currently payable and deferred tax charge.

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

Deferred income tax is recognised, using the liabilities method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the temporary difference arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, no deferred tax will be recognised.

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

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

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

Financial instruments

A financial instrument is initially recognised at fair value on the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flow expire or substantially all risks and rewards of the asset are transferred. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Subsequent to initial recognition, all financial liabilities, with the exception of derivative financial instruments, are stated at amortised cost using the effective interest rate method. The fair value of the financial assets and liabilities held at amortised cost approximate their carrying amount due to the use of market interest rates.

The Company's primary categories of financial instruments are listed below:

Cash at bank and in hand

On the Balance Sheet, cash at bank and in hand comprises cash held with banks.

Trade and other receivables

Trade and other receivables are included in current assets. Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the movement in the provision is recognised in the Income Statement.

Borrowings

Borrowings are recognised initially at fair value, inclusive of transaction costs incurred. Borrowings are subsequently stated at amortised cost and the difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest rate method. Borrowings are classified in creditors amounts falling due within one year unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

B. Accounting policies (continued)

Financial instruments (continued)

Derivative financial instruments

The Company uses equity swap contracts to economically hedge its exposure to fluctuations in the Company's share price which impacts the social security costs payable by Group companies in relation to share-based compensation schemes.

The equity swap contracts are initially recognised at fair value at the trade date and classified as held for trading. All subsequent changes in fair value are recognised in the Income Statement up to the maturity date.

Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Sterling which is the Company's functional and presentation currency.

Transactions in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are held at the year end, are translated into the functional currency at the exchange rate ruling at the balance sheet date. Exchange differences on monetary items are recognised in the Income Statement in the period in which they arise.

Called up share capital

Called up share capital is classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

C. Key sources of estimation and judgement

Preparation of the financial statements in conformity with FRS 101 requires that management make certain judgements, estimates and assumptions that affect the reported revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgements at the date of the financial statements, deviate from actual circumstances, the original estimate and assumptions will be updated as appropriate in the period in which the circumstances change.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key areas where the estimates and assumptions applied have a significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below:

Impairment of investments in subsidiaries

Investments in subsidiaries are not subject to amortisation and are tested annually for impairment. When a review for potential impairment is conducted, the recoverable amount is determined based on the higher of an investment's fair value less costs to sell and value-in-use calculations prepared on the basis of management's assumptions and estimates. Refer to note D for further details of investments.

Impairment of trade and other receivables

The Company is required to make an estimate of the recoverable value of receivables. When assessing potential impairment of receivables, management considers factors including any specific known problems or risks. Refer to note E for further details on the net carrying value of trade and other receivables.

D. Investments in subsidiaries

Cost	£m
As at 1 April 2016	1,712.7
Additions	96.7
Impairment charge	(1.0)
As at 31 March 2017	**1,808.4**

During the year the Company increased its investments in Burberry Haymarket Limited by £66.5m, Thomas Burberry Holdings Limited by £16.3m and Burberry Limited by £13.9m.

The directors consider that the carrying value of the investments in subsidiaries is supported by their underlying net assets and value generated by their operations. The subsidiary undertakings and investments of the Burberry Group are listed in note 28 of the Group financial statements.

E. Trade and other receivables

	As at 31 March 2017 £m	As at 31 March 2016 £m
Amounts owed by Group companies	**423.2**	496.4
Prepayments	**0.6**	0.8
Trade and other receivables – amounts falling due after more than one year	**423.8**	497.2
Amounts owed by Group companies	**246.3**	56.7
Prepayments	**0.2**	0.4
Trade and other receivables – amounts falling due within one year	**246.5**	57.1
Total trade and other receivables	**670.3**	554.3

All amounts owed by Group companies are interest bearing.

The interest rate earned is based on relevant national LIBOR equivalents plus 0.5% to 0.9%. These loans are unsecured and repayable between 1 June 2017 and 17 June 2021.

F. Creditors

	As at 31 March 2017 £m	As at 31 March 2016 £m
Amounts owed to Group companies	**804.9**	801.5
Creditors – amounts falling due after more than one year	**804.9**	801.5
Amounts owed to Group companies	**56.6**	59.4
Other payables	**3.3**	–
Accruals	**0.2**	0.2
Creditors – amounts falling due within one year	**60.1**	59.6
Total creditors	**865.0**	861.1

Amounts owed to Group companies falling due after more than one year are interest bearing. The interest rate earned is based on LIBOR plus 0.5% to 0.9%. These loans are unsecured and repayable between 17 June 2019 and 17 June 2020.

All amounts owed to Group companies falling due within one year are unsecured, interest free and repayable on demand.

G. Called up share capital

Allotted, called up and fully paid share capital	Number	£m
Ordinary shares of 0.05p (2016: 0.05p) each		
As at 1 April 2016	445,037,254	0.2
Allotted on exercise of options during the year	135,811	–
As at 31 March 2017	**445,173,065**	**0.2**

G. Called up share capital (continued)

The Company has a general authority from shareholders, renewed at each Annual General Meeting, to repurchase a maximum of 10% of its issued share capital. During the year ended 31 March 2017, the Company entered into an agreement to purchase £100m of its own shares back as part of a share buy-back programme. Own shares purchased by the Company, as part of a share buy-back programme, are classified as treasury shares and their cost offset against the profit and loss account. When treasury shares are cancelled, a transfer is made from the profit and loss account to the capital redemption reserve, equivalent to the nominal value of the shares purchased and subsequently cancelled. The cost of shares purchased by ESOP trusts are offset against the profit and loss account, as the amounts paid reduce the profits available for distribution by the Company.

As at 31 March 2017 the amount held as treasury shares by the Company and offset against the profit and loss reserve is £97.2m (2016: £nil) including stamp duty of £0.5m (2016: £nil). As at 31 March 2017 the Company held 6.7m treasury shares (2016: nil), with a market value of £116.1m (2016: £nil). £3.3m (2016: £nil), relating to the cost of shares not yet purchased under the current share buy-back agreement, has been charged to the profit and loss account in the period, with the payment obligation recognised in other payables.

As at 31 March 2017 the amount of own shares held by ESOP trusts and offset against the profit and loss account is £44.7m (2016: £39.9m). As at 31 March 2017, the ESOP trusts held 3.5m shares (2016: 3.1m) in the Company, with a market value of £59.6m (2016: £42.7m). In the year to 31 March 2017 the ESOP trusts have waived their entitlement to dividends of £1.7m (2016: £1.2m).

The capital reserve consists of the capital redemption reserve arising on the purchase of own shares.

H. Dividends

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Prior year final dividend paid 26.8p per share (2016: 25.5p)	**118.6**	112.5
Interim dividend paid 10.5p per share (2016: 10.2p)	**45.8**	45.2
Total	**164.4**	157.7

A final dividend in respect of the year to 31 March 2017 of 28.4p (2016: 26.8p) per share, amounting to £123.6m, has been proposed for approval by the shareholders at the Annual General Meeting subsequent to the balance sheet date. The final dividend has not been recognised as a liability at the year end and will be paid on 4 August 2017 to shareholders on the register at the close of business on 7 July 2017.

I. Financial guarantees

On 25 November 2014, the Group entered into a £300m multi-currency revolving credit facility with a syndicate of third-party banks. At 31 March 2017, there were £nil outstanding drawings (2016: £nil). During the year the Group exercised an option to extend the maturity of the facility to November 2021, after receiving consent from all members of the syndicate.

The companies acting as guarantor to the facility consist of Burberry Group plc, Burberry Limited, Burberry Asia Limited, Burberry (Wholesale) Limited (US) and Burberry Limited (US). The fair value of this financial guarantee as at 31 March 2017 is £nil (2016: £nil).

A potential liability may arise in the future if one of the Group members defaults on the loan facility. Each guarantor, including Burberry Group plc, would be liable to cover the amounts outstanding, including principal and interest elements.

J. Audit fees

The Company has incurred audit fees of £0.1m for the current year which are borne by Burberry Limited (2016: £0.1m).

K. Employee costs

The Company has no employees and therefore no employee costs are included in these financial statements for the year ended 31 March 2017 (2016: £nil).

SHAREHOLDER INFORMATION

General shareholder enquiries
Enquiries relating to shareholdings, such as the transfer of shares, change of name or address, lost share certificates or dividend cheques, should be referred to the Company's Registrar, Equiniti, using the details below:

Equiniti
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Tel: 0371 384 2839. Lines are open 8.30am to 5.30pm, Monday to Friday.

Please dial +44 121 415 7047 if calling from outside the UK or see help.shareview.co.uk for additional information.

American Depositary Receipts
Burberry has a sponsored Level 1 American Depositary Receipt ('ADR') programme to enable US investors to purchase ADRs in US Dollars. Each ADR represents one Burberry ordinary share.

For queries relating to ADRs in Burberry, please use the following contact details:

BNY Mellon Shareowner Services
P.O. Box 30170
College Station, TX 77842-3170

Tel: Toll free within the US: +1 888 269 2377
Tel: International: +1 201 680 6825
Email enquiries: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

Annual General Meeting
Burberry's Annual General Meeting will be held at the InterContinental Hotel, One Hamilton Place, Park Lane, London W1J 7QY on Thursday, 13 July 2017.

The Notice of Meeting, together with details of the business to be conducted at the meeting, is available on the Company's website at www.burberryplc.com.

The voting results for the 2017 Annual General Meeting will be accessible on the Company's website at www.burberryplc.com shortly after the meeting.

Dividends
An interim dividend for the financial year ended 31 March 2017 of 10.5p per ordinary share was paid on 27 January 2017. A final dividend of 28.4p per share has been proposed and, subject to approval at the Annual General Meeting on 13 July 2017, will be paid according to the following timetable:

Final dividend record date	7 July 2017
Deadline for return of DRIP mandate forms	14 July 2017
Final dividend payment date	4 August 2017

The ADR local payment date will be approximately five business days after the proposed dividend payment date for ordinary shareholders.

Dividends can be paid by BACS directly into a UK bank account, with the tax voucher being sent to the shareholder's address. This is the easiest way for shareholders to receive dividend payments and avoids the risk of lost or out of date cheques. A dividend mandate form is available from Equiniti or at www.shareview.co.uk.

If you are a UK taxpayer, please note that you are eligible for a tax-free Dividend Allowance of £5,000 in each tax year. Any dividends received above this amount will be subject to taxation. Dividends paid on shares held within pensions and Individual Savings Accounts ('ISAs') will continue to be tax-free. Further information can be found at www.gov.uk/tax-on-dividends.

Dividends payable in foreign currencies
Equiniti is able to pay dividends to shareholder bank accounts in over 30 currencies worldwide through the Overseas Payment Service. An administrative fee will be deducted from each dividend payment. Further details can be obtained from Equiniti or online at www.shareview.co.uk.

Dividend Reinvestment Plan
The Company's Dividend Reinvestment Plan ('DRIP') enables shareholders to use their dividends to buy further Burberry shares. Full details of the DRIP can be obtained from Equiniti. If shareholders would like their final 2017 dividend and future dividends to qualify for the DRIP, completed application forms must be returned to Equiniti by 14 July 2017.

Duplicate accounts
Shareholders who have more than one account due to inconsistency in account details may avoid duplicate mailings by contacting Equiniti and requesting the amalgamation of their share accounts.

Electronic communication
Shareholders may at any time choose to receive all shareholder documentation in electronic form via the internet, rather than in paper format. Shareholders who decide to register for this option will receive an email each time a shareholder document is published on the internet. Shareholders who wish to receive documentation in electronic form should register online at www.shareview.co.uk.

Equiniti offers a range of shareholder information and services online at www.shareview.co.uk. A textphone facility for those with hearing difficulties is available by calling: 0371 384 2255. Lines are open 8.30am to 5.30pm, Monday to Friday. Please call +44 121 415 7047 if calling from outside the UK.

Financial calendar

First Quarter Trading Update	12 July 2017
Annual General Meeting	13 July 2017
Interim Results announcement	November 2017
Third Quarter Trading Update	January 2018
Preliminary Results announcement	May 2018

Registered office
Burberry Group plc
Horseferry House
Horseferry Road
London
SW1P 2AW

Registered in England and Wales
Registered Number 03458224
www.burberryplc.com

Share buyback
From July 2016 to April 2017, the Company completed a buyback programme of £100m. A further share buyback of £300m will be completed in FY 2018, in addition to the £50m already announced. Further details are provided in the Notice of this year's Annual General Meeting, which is available on the Company's website at www.burberryplc.com.

Share dealing
Burberry Group plc shares can be traded through most banks, building societies or stock brokers. Equiniti offers a telephone and internet dealing service. Terms and conditions and details of the commission charges are available on request.

For telephone dealing please telephone 03456 037 037 between 8.00am and 4.30pm, Monday to Friday, and for internet dealing visit www.shareview.co.uk/dealing. Shareholders will need their reference number which can be found on their share certificate.

ShareGift
Shareholders with a small number of shares, the value of which makes them uneconomic to sell, may wish to consider donating their shares to charity through ShareGift, a donation scheme operated by The Orr Mackintosh Foundation. A ShareGift donation form can be obtained from Equiniti. Further information is available at www.sharegift.org or by telephone on 02079 303737.

Share price information
The latest Burberry Group plc share price is available on the Company's website at www.burberryplc.com.

Unauthorised brokers (boiler room scams)
Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. These are typically from overseas-based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as boiler rooms.

If you receive any unsolicited investment advice, get the correct name of the person and organisation and check that they are properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register/.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if things go wrong.

If you think you have been approached by an unauthorised firm you should contact the FCA consumer helpline on 0800 111 6768.

More detailed information can be found on the FCA website at www.fca.org.uk/consumers/protect-yourself/unauthorised-firms.

Website
This Annual Report and other information about Burberry Group plc, including share price information and details of results announcements, are available at www.burberryplc.com.

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Disclaimer

The purpose of this document is to provide information to the members of Burberry Group plc. This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and unless otherwise required by applicable law the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law. This document does not constitute an invitation to underwrite, subscribe for or otherwise acquire or dispose of any Burberry Group plc shares, in the UK, or in the USA, or under the USA Securities Act 1933 or any other jurisdiction.