

Operational review – Burberry

During the year, **Burberry** grew revenue by 18% and operating profit by 30%. This was a strong performance, particularly in light of the difficult macro-economic environment, which adversely impacted many luxury goods companies.



Rose Marie Bravo
Chief Executive
Burberry

Operating margin increased by 1.7% to 18.1%, driven by gross margin improvement, a first time contribution from Asia (£4m) and growth in licensing revenue from Japan. During the year, Burberry continued to invest in the development of its retail network and its infrastructure.

An analysis of revenue by product category, by distribution channel and by region is shown opposite.

Product

Each of Burberry's core product categories continued to grow during the year. With an increase of 28%, accessories led the group, contributing 25% of total revenue in the year. An expanded product range and wider distribution led to 23% growth in womenswear, which accounted for 33% of total revenue. Menswear sales also rose and now represent 30% of revenue.

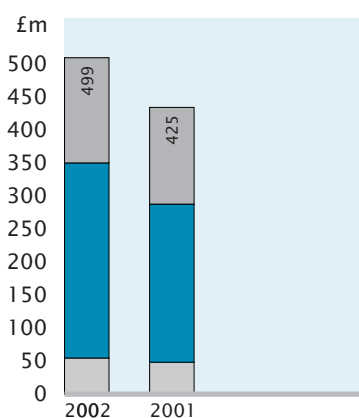
Retail

Sales in Burberry's directly-operated retail stores were up 10% in total. During the year, it successfully opened six new stores and concessions in markets as diverse as Beverly Hills, California, SoHo in New York City and suburban Westchester County, New York. Including 7 stores and concessions acquired as part of the Asian transaction, Burberry had 69 retail stores, including 10 concessions in prestige department stores, at 31 March 2002. Eleven new and replacement stores are scheduled to open in the current financial year. These include flagship stores in New York City, Knightsbridge and Barcelona.

Wholesale

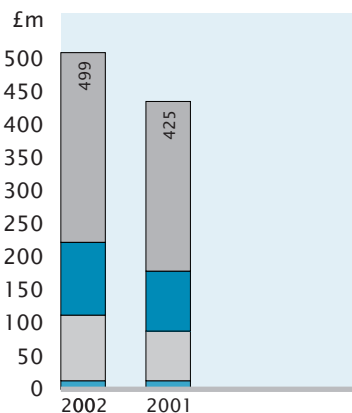
Sales to wholesale customers grew by 21%, with growth in all regions. The strength and appeal of the Burberry brand, the widening product range especially in accessories, coupled with the rollout of the Bond Street corner concept, has encouraged prestige retailers to continue to allocate prime space to Burberry products.

As previously announced, with the Autumn/Winter 2002 wholesale order book now largely complete, sales for this season are expected to be broadly in line with those of a year ago. Demand from travel-related retailers has been influenced by the fact that the volume of international travel is recovering only slowly. Orders from Spain are also being affected as Burberry repositions in that market. Offsetting these factors, however, is continued strong growth in the United States where Burberry, it is believed, is still under-represented.



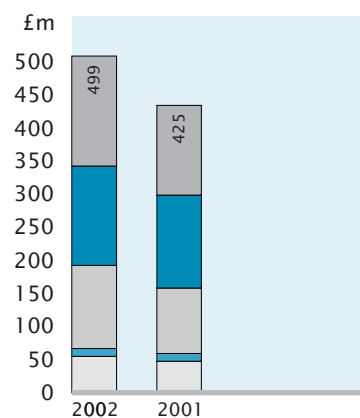
Revenue by distribution channel
12 months to 31 March

- Retail
- Wholesale
- Licensing



Revenue by market (by destination)
12 months to 31 March

- Europe
- North America
- Asia
- Rest of World



Revenue by product category
12 months to 31 March

- Womenswear
- Menswear
- Accessories
- Other
- Licensing

Licensing revenue

Licensing revenue in 2002 grew by 17%, mainly because of the brand's strength in Japan, its largest market. This growth at retail sales value has only a modest impact on the total reported revenue for Burberry because, under its licensing arrangements, Burberry receives a small percentage of the value of the products sold. Burberry's profit benefited substantially in 2002 from both the volume growth in Japan and the renewed licensing arrangements, under which the royalty rate increases each year up to 2006. The beneficial impact of this increase in 2003 is expected to be offset by the weakness of the yen relative to 2002 levels.

Asia outside Japan

With effect from 1 January 2002, Burberry completed the acquisition of the operations of its distributors based in Hong Kong, Singapore and Australia. Having contributed £4m to profits in the year to March 2002, it is expected to add incremental operating profit of £5m to £10m in the year to March 2003.

In March 2002, Burberry signed an agreement to acquire its Korean distribution business, which primarily operates 45 retail concessions in prestige department stores. Burberry expects to complete this acquisition in early July 2002. The deal is expected to add approximately £5m to operating profit in its first twelve months.

With these transactions, which are immediately earnings enhancing, Burberry has gained direct control in these important markets. It now has direct control of the distribution of its core products in all key markets outside Japan.

Burberry

12 months to 31 March	2002 £m	2001 £m	Change	Underlying change*
Sales	499	425	18%	10%
Operating profit	90.3	69.5	30%	21%
Operating margin	18.1%	16.4%		

* at constant exchange rates, excluding the operations of Burberry's distributors based in Hong Kong, Singapore and Australia which were acquired on 1 January 2002 and adjusted for the pre-acquisition period for Spain, which was acquired in July 2000.