

Assessment Component 1

(40% of the total assignment marks)

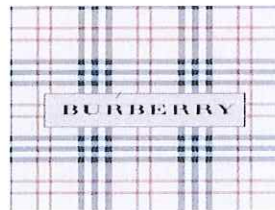
By Judith Nthere

UWTSD FINANCIAL MANAGEMENT

Assessment Part 1

SBMA7100D

BURBERRY FTSE 100 Index– ‘Financial Analysis and Critical
Evaluation of Ratios and Limitations’



In Agreement with Dr Richard Dunstan

18 January 2019

By Judith Nthere

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1.0. Executive Summary

This report has been written using secondary academic research to provide evidence from scholarly websites, journal sources, reports and text books to critically analyse and evaluate the financial performance of FTSE Burberry plc a company that trades at the London Stock Exchange and is part of the FTSE 100 index. The report will also calculate and critically evaluate the profitability, liquidity, gearing, efficiency and investor ratios. Each of the five ratios will be critically evaluated and calculated and possible reasons for change in ratios over the period and limitations of ratio analysis will be discussed after which recommendations on how to improve the financial management of Burberry will be made. The analysis and evaluation will be based on the financial statements derived from the most recent annual reports of the last two/three years FY 2016 to 2018. The report will also compare Burberry's performance with its main competitors in the same industry who are Hugo Boss and Christian Dior to evaluate its performance. Appendices 9.1 and 9.2 is a breakdown of Burberry's three-year financials and ratio calculation methodology to underpin the ratios analysed in 3.0.

I have used March-ending report for Burberry while other companies are for year ending December. A quarterly data arrangement can be done for more adequate comparison.

Burberry data is in GBP while Hugo Boss and Christian Dior are in Euro. However, for the purpose of ratios, it will not make any difference in calculations. For turnover and few other ratios, I have not taken the average of balance sheet data. The same can be calculated for average of opening and closing data.

Given the ratios, Burberry's operating profit margin has fallen from 70% in 2017 to 69% in 2018 compared to the industry margin of 67%. Burberry's operating profit margin has

increased from 14% in 2017 to 15% in 2018 by 1%.

2.0. Introduction

FTSE Burberry Group Plc is a British Global luxury goods manufacturing retailer and wholesaler which produces, designs, develops, makes and sells products under the Burberry Brand. Burberry has a distinctive heritage of design, innovation and craftsmanship and is best known for its "distinctive red, black and tan check" pattern. Burberry was founded in 1856 by 21-year old Thomas Burberry who invented the gabardine, breathable, waterproof and hardwearing fabric in 1879. In 2002, Burberry Plc was listed on the London Stock Exchange following an initial public offering. Burberry operates in Asia Pacific, Europe, Middle East, India, Africa and Americas across over 30 countries through Burberry mainline stores, concessions, outlets and digital e-commerce. The licensing business channel with its headquarters in London, United Kingdom offers global licenses of fragrances, eyewear, time-pieces and children's wear.

This report will examine FTSE Burberry's Balance sheets, Profit & Loss and Income statements as well as Christian Dior and Hugo Boss's over the period 2015 to 2018, and based on these will critically evaluate the key ratios namely, profitability, liquidity, efficiency, gearing and investment ratios

3.0. Analysis

3.1: Results of Financial Ratio Analysis Calculation

	Burberry			Hugo Boss			Christian Dior			Industry Average		
	2018 (March)	2017 (March)	2016 (March)	2017 Dec	2016 Dec	2015 Dec	2017 Dec	2016 Dec	2015 Dec	2017	2016	2015
	£m	£m	£m	Eurm	Eurm	Eurm	Eurm	Eurm	Eurm			
Ratios												
Profitability												
Return on capital employed	25%	21%	23%	31%	23%	37%	14%	21%	14%	23%	30%	16%
Return on ordinary shareholders' funds	21%	17%	19%	25%	22%	33%	18%	23%	15%	19%	27%	19%
Operating profit margin	15%	14%	16%	12%	10%	16%	19%	18%	18%	15%	13%	18%
Gross profit margin	69%	70%	70%	66%	66%	66%	65%	66%	65%	70%	66%	65%
Return on Net Assets	21%	17%	19%	25%	22%	33%	18%	23%	15%	19%	27%	19%
Liquidity												
Current ratio	3	3	3	2	2	2	2	1	1	2.8	1.7	1.6
Quick ratio	2	2	2	1	1	1	1	1	1	2.0	0.8	0.8
Efficiency												
Stock days	180	221	236	212	226	214	264	195	292	212	217	250
Trade receivables settlement period	28	37	41	28	31	31	23	17	25	35	30	22
Trade payables settlement period	73	45	56	0	0	0	0	0	0	58	-	-
Sales revenue to capital employed	1.64x	1.5x	1.42x	2.45x	2.32x	2.31x	.76x	1.16x	.77x	1.52x	2.36x	.9x
Net Asset Turnover	1.92x	1.63x	1.55x	2.99x	3.03x	2.94x	1.33x	1.97x	1.36x	1.7x	2.99x	1.56x
Working Capital Turnover	1.3x	1.25x	1.24x	1.64x	1.6x	1.73x	1.03x	1.75x	1.12x	1.27x	1.66x	1.3x
Fixed Asset Turnover	4.01x	3.57x	3.07x	4.12x	3.58x	3.67x	.96x	1.33x	.87x	3.55x	3.79x	1.05x

Gearing

Gearing ratio	15%	8%	9%	18%	23%	21%	43%	41%	43%	10%	21%	43%
Interest cover ratio	75	79	-53	79	71	63	101	67	0	33	71	56

Investment

Dividend payout ratio	58%	57%	50%	79%	92%	78%	5%	4%	8%	55%	83%	6%
Dividend cover ratio	2	2	2	1	1	1	20	27	12	2	1	20
Dividend yield	2%	2%	3%	4%	4%	5%	1%	1%	1%	2%	4%	1%
Earnings per share	1	1	1	3	3	5	32	38	23	1	4	31
Price earnings ratio	25	26	19	22	21	17	9	5	6	23	20	7

Figure 1. Ratios.

3.1 Limitations of Financial Ratios

Ratios are useful indicators of adverse or encouraging business trends but are only starting points in the quest for more information, Knot (2004, p.29). Atrill (2017, p84) explains that "ratios provide a quick and easy way of measuring financial health and can be very helpful when comparing businesses with a different scale of operations". Direct comparisons of individual, absolute financial metrics can often be misleading and therefore need to be made in consideration of relativity to other measures. Atrill suggests that "ratios are not difficult to calculate but can be difficult to interpret", but more importantly, can act as a catalyst for investors or managers to ask the right questions that in turn improve performance as discussed in the Stack (2012) video. Interestingly, Atrill states 'there is no generally accepted list of ratios nor a standard method for calculating ratios, therefore one drawback of a lack of standardization can

be increased risk of inconsistency' (apples to oranges comparisons). Other limitations

of ratios are explained by Atril (2018, p.286) that Ratios give a restricted view, are only

as reliable as the financial statements from which they derive, inflation can distort the information, some ratios could mislead due to the 'snapshot' nature of the statement

of financial position and it can also be difficult to find a suitable benchmark to compare

with like another business. Knot (2004, p.28) further explains that "ratios do not stand

in isolation but are interrelated" meaning that poor profitability for example will affect

liquidity, ratios relate to a particular point in time and can therefore be distorted by

seasonal factors, valid ratio comparisons can only be made with firms of the same size

and that a year's figures are insufficient but trends are gleaned from a comparison of at least five years.

4.0. Evaluation of Burberry's financial performance

4.1. Profitability Ratio

i) Gross Profit

FTSE Burberry's revenue has gone down from GBP2,766 million in 2017 to

GBP2,732,8 million in 2018 representing a decrease of 1% a trend across the industry

except for Hugo Boss who seems to be doing well. Christian Dior's revenue has also

fallen. Gross Profit margin has decreased from 70% in 2017 to 69% in 2018 compared

to the average industry of 67%. The reason could be that operating expenses have gone down and Burberry's sales have also gone down due to its reporting period of 31 March before the summer sales compared to its competitors reporting period of 31 December which could have an impact on the figures in the balance sheet.

Burberry's total retail business sales grew by 15.7% in 2017 but have fallen in 2018, MarketLine (2018). Burberry needs to improve its capacity to allocate funds for future growth opportunities. Licensing revenue from Japan has also expired.

External environment has remained a challenge for Burberry including persistent underlying cost inflation pressures. A thorough investigation needs to be carried out to find the reason behind this. Reasons could be related to stiff competition in the global retail and apparel industry and local brands. Burberry should therefore do a SWOT Analysis to find out the main root cause and put mitigation measures to avoid recurrence of this.

ii) Operating Profit

Operating profit margin has gone up from 14% in 2017 to 15% in 2018 but against an industry average of 31%. This calls for actions by Burberry to elevate its brand and investigate the root cause. The other reason could be the 31 March reporting period before the summer sales which could explain the reason as to why the sales would be so low. It would make a huge difference if the sales would be between the Christmas and January sales period instead of the Easter promotions where Burberry falls. This shift would affect the figures in the balance sheet. Different accounting practices can also have an effect as well as inflation.

iii) Return on Capital Employed

ROCE shows an increase from 23% in 2016 to 25% in 2018. The reason could be from the high retained earnings and Burberry's very little long-term debt and borrowings. ROCE is a fundamental measure of business performance which expresses the relationship between the operating profit generated during a period and the average long-term capital invested in the business, Atril & McLaney (208, p. 204). This implies that ROCE can be used to provide a target return for individual Projects.

4.2. Liquidity ratio

i). Current ratio

"Liquidity ratios measure the extent to which an entity is able to settle its current liabilities and remain solvent, meaning they try to assess how much cash the entity has available in the short term and if assets can be turned into cash quickly in order to settle current liabilities", Dyson et al (2018, p. 234). The current ratio has remained stable at 3.0 from 2016 to 2018 compared to the industry average of 2.0 which implies that Burberry has excessive funds tied up in cash in capital or shares and are maybe not being used as productively as they might otherwise be, Atril & McLaney (2018, p219). Burberry should consider investing more its capital in say purchasing fixed assets for more productivity. The other reason could be that Burberry has very little long-term liabilities e.g. loan borrowings.

iv) Quick ratio

This shows 2.0 above industry average implying stability due to efficient management of working capital which includes monitoring trade receivables and stock days to ensure liquidity.

4.3. Gearing ratio.

Burberry has a low gearing ratio as compared to the industry average of 63% and is therefore low risk and low proportion of debt to equity. Low gearing implies that shareholders can receive their dividends after interest on projects is shared. More investment is therefore required for Burberry maybe in fixed assets which would be interesting for shareholders.

4.4. Efficiency ratio.

i). Stock Days Turnover Period

Burberry shows declining stock days from 236 in 2016 to 180 in 2018 although below industry average which shows that Burberry could be having too much stock probably from seasonal sales and challenging macro-economic backdrop have impacted on the sales. This again should be investigated.

ii. Trade Receivables

Trade receivables has declined from 41 days in 2016 to 28 days in 2018 but below the average industry of 29 days. This implies that money was not tied up in trade receivables by bad payers thanks to efficient invoicing by Burberry.

iii. Trade Payables

Trade payables shows an increase of 56 in 2016 to 73 days in 2018 against an average of 58 days. Burberry should pay its suppliers on time. This can be beneficial to use finance provided by suppliers but can result in loss of goodwill which can have adverse consequences, Atril (2017, p. 212).

4.5. Investor Ratio

"Investor ratios relate to the market value of the company shares and dividends and are of interest to investors in listed companies primarily", Dyson et al (2018, p. 235).

i) Earnings Per Share

Earnings per share have fallen and remain at 1p from 2016 to 2018 compared to the industry average of 12p which implies that Burberry should invest more in the business or issue more shares for cash, Atril (2017, p.227).

ii) Dividend Yield

Dividend yield has fallen from 3% to 2% but against an average industry of 2.3 which is low risk and shows that Burberry is performing well. There is need to compare with the industry average though findings can differ due to different accounting practices/policies and also fluctuations.

5.0. Conclusion

Burberry's 2018 total revenue declined by 1% underlying reinforcing actions to build and reinforce Burberry's luxury brand positioning Retail growth of 3% was offset by a decline in wholesale down by 14% and licensing decline by 48%. Adjusted PBT was down by 21% underlying in 2017 which reflected a lower wholesale revenue and a reduction in licensing income due to the planned expiry of Japanese licences partially offset by cost savings. The challenging global macro-economic backdrop, external environment, exchange rates, remain a challenge for Burberry's performance. Burberry should reduce working capital and consider reinvesting more cash in the business.

6.0. Recommendations

Looking at the challenging global macro-economic backdrop which had a significant impact on Burberry's performance including constant exchange rates, the following recommendations would improve Burberry's financial management: -

- a. Use artificial intelligence and big data to build sales Marr (2017): Mckinsey (2014) suggests that "success depends on the ability to invest in relevant digital capabilities aligned with strategy and to do so at scale". According to Forbes (2017), Burberry announced in 2015 that its investment in personalised customer management programs resulted in 50% increase in repeat custom.
- b. Tracking key business metrics: Being able to monitor, identify and improve upon key business metrics which would improve the financial health of the company.
- c. Improving processes: Evaluating finance and accounting processes in order to identify ways of increasing efficiency to improve quality. Lack of proper control over certain processes can pose a risk and result in loss of revenue and profit.
- d. Reduce its capital by more investment.
- e. Leveraging technology: Burberry needs to promote real-time decision-making throughout the business.
- f. Reviewing Operating costs and increase the debt to cater for more

investment or growth.

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8.0. Appendices.

8.1 Income Statement

Income Statement	Burberry			Hugo Boss			Christian Dior		
	2018 (March)	2017 (March)	2016 (March)	2017 Dec	2016 Dec	2015 Dec	2017 Dec	2016 Dec	2015 Dec
	£m	£m	£m	Eurm	Eurm	Eurm	Eurm	Eurm	Eurm
Revenue	2732.8	2,766	2,515	2,732	2,692	2,808	43,666	59,404	37,511
Cost of sales	-835.4	-833	-752	-924	-915	-955	15,084	20,479	13,037
Gross profit	1,897	1,933	1,763	1,808	1,777	1,853	28,582	38,925	24,474
Operating expenses	-1487.1	-1,539	-1,360	-1,467	-1,514	-1,405	20,383	28,184	17,865
Operating profit	410	394	403	341	263	448	8,199	10,741	6,609
Finance income	7.8	6	5	2	2	1	-	-	-
Finance expense	-6	-5	8	-4	-4	-7	-81	-160	0
Other non-operating items	-	-	-	-7	-6	-22	-122	-491	-345
Profit before tax	413	395	416	331	255	420	7,996	10,090	6,264
Taxation	-119	-107	-101	-100	-61	100	-2,243	-3,202	-2,071
Profit after tax	294	288	315	231	194	319	5,753	6,888	4,193

8.2 Balance Sheet

BBRY.

HUGO BOSS

CHRISTIAN DIOR

	2018 (March) £m	2017 (March) £m	2016 (March) £m	2017 Dec Eurm	2016 Dec Eurm	2015 Dec Eurm	2017 Dec Eurm	2016 Dec Eurm	2015 Dec Eurm
Balance Sheet									
Intangible assets	180.1	170	190	182	185	183	28,379	27,114	27,092
Property, plant and equipment	313.6	400	426	365	416	440	13,218	12,962	11,958
Other non-current assets	187.6	205	204	115	151	142	4,035	4,473	3,930
Non-current assets	681	775	819	662	752	765	45,632	44,549	42,980
Inventory	411.8	505	487	536	567	559	10,908	10,929	10,426
Trade receivables	206.3	277	285	207	228	239	2,737	2,785	2,610
Other current assets	8.3	13	11	199	169	157	5,899	2,749	2,831
Cash	915.3	844	712	116	83	81	7,586	3,772	3,839
Current assets	1,542	1,639	1,495	1,058	1,047	1,036	27,130	20,235	19,706
Loans and borrowings <1 year	-23	-34	-52	-68	-77	-41	-4,553	-3,854	-4,560
Trade and other payables <1 year	-461	-459	-387	-285	-271	-272	-4,540	-4,384	-4,157
Tax liabilities	-33	-50	-80	-32	-27	-46	-853	-456	-677
Other payables <1 year	-36	-22	-20	-222	-265	-229	-5,172	-4,976	-4,532
Current liabilities	-553	-565	-540	-607	-640	-588	15,118	13,670	13,926
Trade and other payables >1 year	-168	-102	-115	0	0		-2,578	-2,386	-1,982
Provisions	-5	-47	-38	-70	-78	-72	-2,578	-2,386	-1,982
Long-term debts	0			-63	-134	-135	-7,893	-5,241	-5,571
Other payables >1 year	-71	-2	-1	-66	-59	-50	14,440	13,403	13,569
Non-current liabilities	-245	-151	-154	-199	-271	-257	24,911	21,030	21,122
Net assets	1,425	1,698	1,621	915	888	956	32,733	30,084	27,638
Share capital	0.2	0.2	0.2	28	28	28	361	361	361
Share premium	214.6	211	210			0	194	194	194
Other reserves	259.60	312	214	0	0	-0	9,987	10,225	9,308
Retained Earning	946.1	1,169	1,141	887	858	928	2,240	1,058	863

Non-controlling interest	4.9	5	56	-0	1	0	19,951	18,246	16,912
Equity	1,425	1,698	1,621	915	887	956	32,733	30,084	27,638
<i>Balance check (should = 0)</i>	0	0	0	-0	0	-0	0	0	0
Dividends (mns)	169	164	158	183	179	249	289	253	352
Share price (Year end closing price)	16.96	17	14	71	58	77	304	197	145
Capital Employed (mns)	1,670	1,849	1,775	1,113	1,159	1,213	57,644	51,114	48,760
No. Of shares (mns)	426	439	446	70	70	70	180	179	179

APPENDIX vi

KEY FINANCIAL RATIOS**FORMULA****PROFITABILITY RATIOS**

- Gross Profit = $\frac{\text{Gross profit}}{\text{Net Sales}}$
- Return on Capital Employed ROCE = $\frac{\text{Operating profit}}{\text{Share capital + Reserves + Non-current Liabilities + share capital + share premium + other reserves + retained earnings + non-controlling interests}}$
- Net Profit = $\frac{\text{Profit for the year}}{\text{Net Sales}}$
- Operating Profit Margin = $\frac{\text{Operating profit} \times 100}{\text{Sales revenue}}$
- Gross Profit Margin = $\frac{\text{Gross Profit} \times 100}{\text{Sales revenue}}$

LIQUIDITY RATIOS

- Current ratio Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$
- Quick ratio Quick ratio = $\frac{\text{Current assets (less inventories)}}{\text{Current liabilities}}$

EFFICIENCY RATIOS

- Net Asset Turnover = $\frac{\text{Net Sales}}{\text{Total Assets}}$
- Return on Assets = $\frac{\text{Profit for the Year}}{\text{Total Assets}}$
- Debtors (Receivables) control = $\frac{\text{Trade and other receivables} \times 365}{\text{Net Sales}}$
- Creditors (Payables) control = $\frac{\text{Trade and other Payables} \times 365}{\text{Cost of Sales}}$
- Stock turnover in days = $\frac{\text{Inventories} \times 365}{\text{Cost of Sales}}$

GEARING RATIOS

- Preferred Gearing ratio = $\frac{\text{Long term (non-current) liabilities} \times 100}{\text{Share capital + Reserves + Long term (non-current) liabilities}}$

- Long-Term Debt to Equity = $\frac{\text{Borrowings}}{\text{Share capital} + \text{Reserves} + \text{share premium} + \text{retained Earnings} + \text{Non-controlling interests} + \text{Other Reserves}}$
- Interest cover ratio = $\frac{\text{Operating Profit}}{\text{Interest Payable}}$

INVESTMENT RATIOS

- Dividend pay-out ratio = $\frac{\text{Dividends announced for the year}}{\text{Earnings for the year available for dividends}} \times 100$
- Dividend cover ratio = $\frac{\text{Earnings for the year available for dividend}}{\text{Dividends announced for the year}}$
- Dividend Yield = $\frac{\text{Dividend per share}}{\text{Market value per share}} \times 100$
- Earnings per share = $\frac{\text{Earnings available to ordinary shareholders}}{\text{Number of ordinary shares in issue}}$
- Price/Earnings ratio = $\frac{\text{Market value per share}}{\text{Earnings per share}}$

Assessment Component 2

(40% of the total assignment marks)

By Judith Nthere

UWTSD FINANCIAL MANAGEMENT

Assessment Part 2

SBMA7100D

James Plc– ‘Evaluation of three investment options using the Net Present Value (NPV) technique and explaining whether the company should undertake the project or look for other opportunities’

In Agreement with Dr Richard Dunstan

18 January 2019

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1.0. Executive Summary

This report has been written using secondary academic research from scholarly websites, journal sources, and text books to provide evidence for James Plc, company that produces a variety of high-quality garden furniture and associated items considering investing in the potential to expand the business. The Directors have identified three main options for a four-year plan: to either expand its flourishing retail outlet to include all products, develop into internet sales or produce greenhouses and conservatories with an initial expenditure of £750,000, £1,200,000 and £2,000,000 given year-end estimates of cash flow over a period of four years respectively. This report will explain whether James Plc should undertake the project or look for other opportunities by evaluating the three investment options using the net present value (NPV) technique, given the cost of capital of 8% and recommend with reasons 1 choice.

The report will also incorporate the approximate appropriate internal rate of return (IRR) and present theoretical arguments for the choice of the net present value (NPV) as the best method of investment appraisal, explain the continued popularity among decision makers of non-discounting methods of investment appraisal and identify factors to be considered before an investment decision is made.

This report will also calculate the optimal investment policy and the resulting total NPV from the investment policy given limited funds of 2,500,000 if possible, for divisible projects, to undertake a fraction of a total project assuming that corporation tax is pegged at 20% and capital allowances are 25% on a straight-line basis. In conclusion, the main sources of finance available will be identified and the main advantages and disadvantages of each of the finance sources will be assessed after which the James Plc Board will be advised on how the proposed investment might be financed.

2.0. Introduction

James Plc produces a variety of high-quality garden furniture and associated items and is considering whether or not to invest in the potential to expand the business. James Plc Directors have identified three main options for a four-year plan to expand its flourishing retail outlet to include all products, develop internet sales or produce green houses and conservatories. A business report will be written to the Directors explaining whether the company should undertake the project by evaluating the three investment options using the net present value (NPV) technique and finding the approximate internal rate of return (IRR) or look for other opportunities. This report will conclude by advising the Board on how the chosen viable project will be financed through the main sources of finance available.

3.0. Evaluation of the three investment options using a net present value (NPV) technique assuming the cost of capital to be 8%.

3.1. Calculation of the three project proposals as shown below.

3.2. Calculation of option 1 with an initial expenditure of £750,000.

Year		1 £'000	2 £'000	3 £'000	4 £'000
Cash Flow		400	500	500	500
(-) Capital Allowances	25%	-187.5	-187.5	-187.5	-187.5
		212,5	312,5	312,5	312,5
(-) Tax	20%	-42.5	-62,5	-62.5	-62.5
		170	250	250	250
(+) Capital Allowances		187,5	187,5	185,5	185,5
Net Cash Flow		357,5	437,5	437,5	437,5
PV of Net Cash Flow*		331,0	375,1	347,3	321,6
Total Present value of cash inflow	1.375				

Net Present Value NPV	625				
Cost of capital	8%				
Initial capital expenditure	-750				

3.3. Calculation of net cash flow for Option 1 and net present value factor formula as follows: -

a. *Present value of cash flow formula = $C/(1+r)^n$

- i. $400/(1+0.08)^1 = 331.0185$
- ii. $500/(1+0.08)^2 = 375.0857$
- iii. $500/(1+0.08)^3 = 347.3016$
- iv. $500/(1+0.08)^4 = 321.5756$

NPV = Present value of cash inflow – net cash flow (initial expenditure)
= 750 – 1.375 =

NPV = 625 for option 1

3.4. Calculation of option 2 with initial expenditure of £1,200,000

Year		1 £'000	2 £'000	3 £'000	4 £'000
Cash Flow		500	600	800	1,000
(-) Capital Allowances	25%	-300	-300	-300	-300
		200	300	500	700
(-) Tax	20%	-40	-60	-100	-140
		160	240	400	560
(+) Capital Allowances		300	300	300	300
Net Cash Flow		460	540	700	860
PV of Net Cash Flow*		425,9	463,0	555,7	632,1
Total Present value of cash inflow	2,077				
Net Present Value NPV	877				

Cost of capital	8%				
Initial capital expenditure	-1200				

3.5. Calculation of net cash flow for Option 2 and net present value factor formula as follows: -

a.* Present value factor formula = $C/(1+r)^n$

i. $500/(1+0.08)^1 = 425,9259$

ii. $600/(1+0.08)^1 = 462,963$

iii. $800/(1+0.08)^1 = 555,6826$

iv. $1,000/(1+0.08)^1 = 632,1257$

NPV = Present value of cash inflow – net cash flow (initial expenditure)

NPV = 2,077 – 1,200 =

= 877 for option 2

3.6. Calculation of option 3 with initial expenditure of £2,000,000.

Year		1 £'000	2 £'000	3 £'000	4 £'000
Cash Flow		500	1,000	1,500	1,500
(-) Capital Allowances	25%	-500	-500	-500	-500
		0	500	1,000	1,000
(-) Tax	20%	0	-100	-200	-200
		0	400	800	800
(+) Capital Allowances		500	500	500	500
Net Cash Flow		500	900	1300	1300
PV of Net Cash Flow*		463,0	771,6	1032,0	955,5
Total Present value of cash inflow	3,222				
Net Present Value NPV	1,222				

Cost of capital	8%				
Initial capital expenditure	-2000				

3.7. Calculation of net cash flow for Option 3 and net present value factor formula as follows: -

*a. Present value factor formula = $C/(1+r)^n$

- i. $500/(1+0.08)^1 = 462,963$
- ii. $1,000/(1+0.08)^2 = 771,6049$
- iii. $1,500/(1+0.08)^3 = 1031,982$
- iv. $1,500/(1+0.08)^4 = 955.5388$

NPV= Present value of cash inflow – net cash flow (initial expenditure)

$$= 3,222 - 2,000$$

$$= \text{NPV} = 1,222$$

Option C has the highest Net Present value and is therefore the best option. It will increase value to the organisation by 1,222.

3.8. Find the approximate internal rate of return (IRR) of your choice in (a).

IRR is the rate of return at which NPV is equal to zero. Therefore, in option (C) which

is my recommended choice, I will first calculate NPV at 28%.

At 28% the NPV is calculated and shown below.

Year		1 £'000	2 £'000	3 £'000	4 £'000
Net Cash Flow		500	900	1300	1300
PV of Net Cash flow*		390.6	549.3	619.9	484.3
Total Present value of cash inflow	2.044				
Net Present Value NPV	44				
Cost of capital	28%				
Initial capital	-				

expenditure	2000				
-------------	------	--	--	--	--

4.0. A presentation of the theoretical arguments for the choice of net present value as the best method of investment appraisal.

Since the NPV above at 28% is still positive we increase the rate by 100 bps and recalculate the NPV at 29%.

Year		1 £'000	2 £'000	3 £'000	4 £'000
Net Cash Flow		500	900	1300	1300
PV of Net Cash flow*		387.6	540.8	605.6	469.4
Total Present value of cash inflow	2.003				
Net Present Value NPV	3				
Cost of capital	29%				
Initial capital expenditure	- 2000				

Hence we can conclude that the IRR for option C is ~29% as at 29% the NPV is ~0

IRR for Option C = 29%

5.0. Explain the continued popularity among decision makers of non-discounting methods of investment appraisal.

"The essence of all investment appraisals is to measure the worthwhile nature of proposals to spend money by comparing the benefits with the costs", Mot et al (2018,

p. 207). One of the most common non-discounting methods are the Payback period (PP) and the IRR, Chandra (2011). The PP method takes into account the payback period set by the business, therefore the logic in using the PP method is that "projects

that can recoup their cost quickly are economically more attractive than those with longer payback periods" Atril (2018, p. 277). This method is easy to calculate and

understand but it is not “however a complete answer to the problem”, Atril (2018, p.277). Cash flows arising beyond the payback period are also ignored implying that not all information relevant to the project will be taken into account. The PP method does not also deal with the problem of risk since it only favours projects “with short paybacks”, Atril (2018, p. 278).

The ARR financial accounting measure of managerial and company performance is also widely used by managers to know how any new investment contributes to the business units overall ARR, Drury (2011, p. 230).

5.1. Identify what other factors should be considered before an investment decision is made.

- i. Define the objective: Lay out proposal objectives, economic rationale, and showcase model of inputs, outputs and outcomes
- ii. Clarify the scope: Specify duration of spending proposal and establish sunset clause to prevent scope creep; Identify departments affected; Identify number of clients
- iii. Assess Feasibility • Identify constraints such as financial, legal, environmental, administrative; Describe previous experience
- v. Explore the Different Options to Achieve the Identified Objective: Options appraisal; Core assumptions; Justification of Options/Decision criteria; Quantify costs of viable options and specify sources of funding.
- vi. Analyse the Main Options: Conduct Financial Appraisal (Capital Costs, Operating and Maintenance, Revenues); Conduct cash-flow appraisal (Capital costs, tax costs, charges); Analyse sources of funding, conduct qualitative and quantitative economic appraisal, which includes economic,

safety, environment, accessibility and social inclusion.

- vii. Risk Analysis: Identify risks; Make realistic assumptions about future prices, costs, market growth, and other relevant factors; Conduct sensitivity and scenario analysis; Risk mitigation strategy.
- viii. Recommendations • Key results from appraisal; Address Qualitative issues.

Source: Investment Appraisal Framework December 2018 Ireland Department of Transport, Tourism, and Sport, (March 2016), "Common Appraisal Framework"

The following factors should also be considered before an investment decision is made: -

- a. Assess the business: It is crucial to assess the business to determine its profitability and performance history which can be done by "checking financial reports that include the past three year's budget and tax returns, a balance sheet, current receivables, cash flow projections, profit and loss statements, investment capital and credit needs", Edmunds (n d).
- b. Obtain information on the business upfront: Potential investors should obtain as much information as possible about the "business industry and the deal", Forbes (2014). This implies that research must be done in advance before any investment decisions to increase the chances of success.
- c. Risk-return parity: Understanding the returns of the assets against the risk involved is important in case of deviation in the portfolio which could be

detrimental to the “financial plan if there is no risk plan for an eventual volatility”, Atril (2018).

- 6.0. If funds are limited to £ 2,500,000 and the projects are divisible, calculate the optimal investment policy and the resulting total NPV from your investment policy. Assume corporation tax is 20% and capital allowances are 25% on a straight-line basis.**

	Option A £ '000	Option B £ '000	Option C £ '000	
PV of FCF	1 375	2,077	3.222	
Initial expenditure	750	1,200	2.000	
Profitability Index (PV of Cash Flow/Initial Expenditure)	1.83	1.73	1.61	
Rank (based on Profitability Index)	I	II	III	
Capital Allocation to projects (£)	750	1200	550 (2500- 750-1200)	
Capital allocation to projects (%)	100%	100%	28%	
NPV	625	877	336.07 (28% of 1.222)	1,838

7.0. Conclusion

According to IRGC (nd), “understanding risk and acting accordingly is a process” in that risks need to be evaluated and quantified both in terms of their effect and their likelihood. Some risks are easy to counter, such as interest rates. By understanding the risks and knowing the costs of appropriate mitigation, it is possible to make a reasonable decision on whether or not to proceed with an investment decision as we have rightfully chosen the project for James Plc to embark on.

The problems lie with uncertainty (unknown unknowns). Looking at James Plc, what can be predictable is the general nature of the market and the susceptibility to shifts

in demand and price of commodities. As such, when entering into projects which have

understandable (if not predictable) uncertainty like in the case of James Plc, it is necessary to ensure that the returns are commensurate with the level of risk.

Investopedia (no date) outlines the principle of the proportionality of risk and return.

In essence, some risks can be mitigated against and we can quickly adapt to counter uncertainties but the question of investing or not require assessing whether the returns

are worth the risks in this VUCA environment.

8.0 Recommendation

The proposed investment programme might be financed by debentures for long-term and can be secured on James Plc's assets, Dyson (2017, p.438). The advantage of using this source is that it is cheaper and does not result in dilution of interest on shareholder's equity and in addition, interest on debenture is a tax-deductible expenditure, interest is payable even when there is a loss so there is no risk. The advantage can be that payment of interest is obligatory even in case of loss. The other funding source could be through rights issue by increasing the number of shares available either on the open market or to existing shareholders, Dyson (2018, p.438). The advantage is that it can help to raise a large amount of funding and there is no dilution of control, high issue costs and ownership of the business remains in the same hands, Atril (2018, p.439). In essence, the obligation to make interest payments as with the debentures is that it could jeopardise the business and there is no such risk with ordinary shares, Atril (2018, p.418). Crowd funding can also be another funding source with many successful stories from sites like Go Fund Me, lending money had never been so easy. Investors can invest directly through an organisation like Funding Circle, where small businesses can apply for a loan. Investor risks are unavoidable as the loans may not be secured but the investors can assess their level of risk. Another means is through trade credit and debt factoring

(Atrill & McLaney 2017, p273) explains how debt-factoring can be used effectively as a mid-long-term finance solution through outsourcing collection of trade receivables, resulting in savings in credit management and quick cash advances. Another means would be lending money from the Banks which is generally easier than trying to identify capitalists like investors. The advantage of lending from the bank is that it is easier and does not require a lot of effort to convince. The disadvantage is that detailed cash flow projections for the business are required.

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10.0. Appendices.

i) Option 1 Calculation

Excel

Year		1	2	3	4
Cash Flow		400	500	500	500
(-) Capital Allowances	25%	-187,5	-187,5	-187,5	-187,5
		212,5	312,5	312,5	312,5
(-) Tax	20%	-42,5	-62,5	-62,5	-62,5
		170	250	250	250
(+) Capital Allowances		187,5	187,5	187,5	187,5
Net cash flow	-750	357,5	437,5	437,5	437,5
		331,0185	375,0857	347,3016	321,5756
PV of Cash Inflow	¹ 375				
NPV	625				
Cost Of Capital	8%				
Initial Capital Expenditure	-750				
IRR	40%				

ii). Calculation Option II

Year		1	2	3	4
Cash Flow		500	600	800	1000
(-) Capital Allowances	25%	-300	-300	-300	-300
		200	300	500	700
Tax	20%	-40	-60	-100	-140
		160	240	400	560
(+) Capital Allowances		300	300	300	300
Net cash flow	-1200	460	540	700	860
		425,9259	462,963	555,6826	632,1257
PV of Cash Inflow	2 077				
NPV	877				
Cost Of Capital	8%				
Initial Capital Investment	-1200				
IRR	34%				

iii. Calculation Option III. Excel

Year		1	2	3	4
Cash Flow		500	1000	1500	1500
(-) Capital Allowances	25%	-500	-500	-500	-500
		0	500	1000	1000
Tax	20%	0	-100	-200	-200
		0	400	800	800
(+) Capital Allowances		500	500	500	500
Net cash flow	-2000	500	900	1300	1300
		462,963	771,6049	1031,982	955,5388
PV of Cash Inflow	3 222				
NPV	1 222				
Cost Of Capital	8%				
Initial Capital Investment	-2000				
IRR	29%				

iv.) Ranking Options I,II & III.

	Option 1	Option II	option III	
	1	2	3	
PV of FCF	375	077	222	
Investment	750	1200	2000	
PI	1,83	1,73	1,61	
Rank	I	II	III	
	750	750	750	
		1200	1200	
			2500	
	100%	100%	28%	
	625	877	336,07	1 838

	BURBERRY			HUGO BOSS			CHRISTIAN DIOR			
	2018 (March)	2017 (March)	2016 (March)	2017 Dec	2016 Dec	2015 Dec	2017 Dec	2016 Dec	2015 Dec	
	£m	£m	£m	Eurm	Eurm	Eurm	Eurm	Eurm	Eurm	
Income Statement										
Revenue	2732,8	2.766	2.515	2.732	2.692	2.808	43.666	59.404	37.511	
Cost of sales	-835,4	-833	-752	-924	-915	-955	-15.084	-20.479	-13.037	
Gross profit	1.897	1.933	1.763	1.808	1.777	1.853	28.582	38.925	24.474	
Operating expenses	-1487,1	-1.539	-1.360	-1.467	-1.514	-1.405	-20.383	-28.184	-17.865	
Operating profit	410	394	403	341	263	448	8.199	10.741	6.609	
Finance income	7,8	6	5	2	2	1				
Finance expense	-6	-5	8	-4	-4	-7	-81	-160	0	
Other non-operating items				-7	-6	-22	-122	-491	-345	
Profit before tax	413	395	416	331	255	420	7.996	10.090	6.264	
Taxation	-119	-107	-101	-100	-61	100	-2.243	-3.202	-2.071	
Profit after tax	294	288	315	231	194	319	5.753	6.888	4.193	
	Burberry			Hugo Boss			Christian Dior			
	2018 (March)	2017 (March)	2016 (March)	2017 Dec	2016 Dec	2015 Dec	2017 Dec	2016 Dec	2015 Dec	
	£m	£m	£m	Eurm	Eurm	Eurm	Eurm	Eurm	Eurm	
Balance Sheet										
Intangible assets	180,1	170	190	182	185	183	28.379	27.114	27.092	
Property, plant and equipment	313,6	400	426	365	416	440	13.218	12.962	11.958	
Other non-current assets	187,6	205	204	115	151	142	4.035	4.473	3.930	
Non-current assets	681	775	819	662	752	765	45.632	44.549	42.980	
Inventory	411,8	505	487	536	567	559	10.908	10.929	10.426	
Trade receivables	206,3	277	285	207	228	239	2.737	2.785	2.610	
Other current assets	8,3	13	11	199	169	157	5.899	2.749	2.831	
Cash	915,3	844	712	116	83	81	7.586	3.772	3.839	
Current assets	1.542	1.639	1.495	1.058	1.047	1.036	27.130	20.235	19.706	
Loans and borrowings <1 year	-23	-34	-52	-68	-77	-41	-4.553	-3.854	-4.560	
Trade and other payables <1 year	-461	-459	-387	-285	-271	-272	-4.540	-4.384	-4.157	
Tax liabilities	-33	-50	-80	-32	-27	-46	-853	-456	-677	
Other payables <1 year	-36	-22	-20	-222	-265	-229	-5.172	-4.976	-4.532	
Current liabilities	-553	-565	-540	-607	-640	-588	-15.118	-13.670	-13.926	
Trade and other payables >1 year	-168	-102	-115	0	0					
Provisions	-5	-47	-38	-70	-78	-72	-2.578	-2.386	-1.982	
Long-term debts	0			-63	-134	-135	-7.893	-5.241	-5.571	
Other payables >1 year	-71	-2	-1	-66	-59	-50	-14.440	-13.403	-13.569	
Non-current liabilities	-245	-151	-154	-199	-271	-257	-24.911	-21.030	-21.122	
Net assets	1.425	1.698	1.621	915	888	956	32.733	30.084	27.638	
Share capital	0,2	0,2	0,2	28	28	28	361	361	361	
Share premium	214,6	211	210			0	194	194	194	
Other reserves	259,60	312	214	0	0	-0	9.987	10.225	9.308	
Retained Earning	946,1	1.169	1.141	887	858	928	2.240	1.058	863	
Non-controlling interest	4,9	5	56	-0	1	0	19.951	18.246	16.912	
Equity	1.425	1.698	1.621	915	887	956	32.733	30.084	27.638	
Balance check (should = 0)										
	0	0	0	-0	0	-0	0	0	0	
Dividends (mns)	169	164	158	183	179	249	289	253	352	
Share price (Year end closing price)	16,96	17	14	71	58	77	304	197	145	
Capital Employed (mns)	1.670	1.849	1.775	1.113	1.159	1.213	57.644	51.114	48.760	
No. Of shares (mns)	426	439	446	70	70	70	180	179	179	
	Burberry			Hugo Boss			Christian Dior			Industry Average
	2018 (March)	2017 (March)	2016 (March)	2017 Dec	2016 Dec	2015 Dec	2017 Dec	2016 Dec	2015 Dec	
	£m	£m	£m	Eurm	Eurm	Eurm	Eurm	Eurm	Eurm	
Ratios										
Profitability										
Return on capital employed	25%	21%	23%	31%	23%	37%	14%	21%	14%	23% 30% 16%
Return on ordinary shareholders' funds	21%	17%	19%	25%	22%	33%	18%	23%	15%	19% 27% 19%
Operating profit margin	15%	14%	16%	12%	10%	16%	19%	18%	18%	15% 13% 18%
Gross profit margin	69%	70%	70%	66%	66%	66%	65%	66%	65%	70% 66% 65%
Return on Net Assets	21%	17%	19%	25%	22%	33%	18%	23%	15%	19% 27% 19%
Liquidity										
Current ratio	3	3	3	2	2	2	2	1	1	2,8 1,7 1,6
Quick ratio	2	2	2	1	1	1	1	1	1	2,0 0,8 0,8
Efficiency										
Stock days	180	221	236	212	226	214	264	195	292	212 217 250
Trade receivables settlement period	28	37	41	28	31	31	23	17	25	35 30 22
Trade payables settlement period	73	45	56	0	0	0	0	0	0	58 - -
Sales revenue to capital employed	1,64x	1,5x	1,42x	2,45x	2,32x	2,31x	,76x	1,16x	,77x	1,52x 2,36x ,9x
Net Asset Turnover	1,92x	1,63x	1,55x	2,99x	3,03x	2,94x	1,33x	1,97x	1,36x	1,7x 2,99x 1,56x
Working Capital Turnover	1,3x	1,25x	1,24x	1,64x	1,6x	1,73x	1,03x	1,75x	1,12x	1,27x 1,66x 1,3x
Fixed Asset Turnover	4,01x	3,57x	3,07x	4,12x	3,58x	3,67x	,96x	1,33x	,87x	3,55x 3,79x 1,05x
Gearing										
Gearing ratio	15%	8%	9%	18%	23%	21%	43%	41%	43%	10% 21% 43%
Interest cover ratio	75	79	-53	79	71	63	101	67	0	33 71 56
Investment										
Dividend payout ratio	58%	57%	50%	79%	92%	78%	5%	4%	8%	55% 83% 6%
Dividend cover ratio	2	2	2	1	1	1	20	27	12	2 1 20
Dividend yield	2%	2%	3%	4%	4%	5%	1%	1%	1%	2% 4% 1%
Earnings per share	1	1	1	3	3	5	32	38	23	1 4 31
Price earnings ratio	25	26	19	22	21	17	9	5	6	23 20 7

Group Income Statement

	Note	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Continuing operations			
Revenue	3	2,523.2	2,329.8
Cost of sales		(757.7)	(671.3)
Gross profit		1,765.5	1,658.5
Net operating expenses	4	(1,325.2)	(1,213.1)
Operating profit		440.3	445.4
Financing			
Finance income		4.4	3.9
Finance expense		(3.8)	(3.2)
Other financing income/(charges)		3.7	(1.7)
Net finance income/(charge)	8	4.3	(1.0)
Profit before taxation	5	444.6	444.4
Taxation	9	(103.5)	(112.1)
Profit for the year		341.1	332.3
Attributable to:			
Owners of the Company		336.3	322.5
Non-controlling interest		4.8	9.8
Profit for the year		341.1	332.3
Earnings per share			
Basic	10	76.4p	73.6p
Diluted	10	75.1p	72.1p
Reconciliation of adjusted profit before taxation:			
		£m	£m
Profit before taxation		444.6	444.4
Adjusting items:			
Amortisation of the fragrance and beauty licence intangible in operating expenses	6	14.9	14.9
Put option liability finance (income)/charge	6	(3.7)	1.7
Adjusted profit before taxation – non-GAAP measure		455.8	461.0
Adjusted earnings per share – non-GAAP measure			
Basic	10	78.3p	77.0p
Diluted	10	76.9p	75.4p
Dividends per share			
Interim	11	9.70p	8.80p
Proposed final (not recognised as a liability at 31 March)	11	25.50p	23.20p

Group Statement of Comprehensive Income

	Note	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Profit for the year		341.1	332.3
Other comprehensive income ¹ :			
Cash flow hedges	22	(7.4)	(5.0)
Foreign currency translation differences		52.0	(54.6)
Tax on other comprehensive income:			
Cash flow hedges		1.5	1.3
Foreign currency translation differences		(4.4)	4.6
Other comprehensive income/(expense) for the year, net of tax		41.7	(53.7)
Total comprehensive income for the year		382.8	278.6
Total comprehensive income attributable to:			
Owners of the Company		372.5	272.5
Non-controlling interest		10.3	6.1
		382.8	278.6

1 All items included in other comprehensive income may subsequently be reclassified to profit and loss in a future period.

Group Balance Sheet

	Note	As at 31 March 2015 £m	As at 31 March 2014 £m
ASSETS			
Non-current assets			
Intangible assets	12	193.5	195.4
Property, plant and equipment	13	436.5	398.4
Investment properties		2.2	2.6
Deferred tax assets	14	145.0	116.0
Trade and other receivables	15	60.5	42.3
Derivative financial assets	17	1.5	0.5
		839.2	755.2
Current assets			
Inventories	16	436.6	419.8
Trade and other receivables	15	260.3	231.4
Derivative financial assets	17	8.4	4.6
Income tax receivables		11.3	9.0
Cash and cash equivalents	18	617.4	545.5
		1,334.0	1,210.3
Total assets		2,173.2	1,965.5
LIABILITIES			
Non-current liabilities			
Trade and other payables	19	(117.1)	(107.4)
Deferred tax liabilities	14	(0.9)	(1.0)
Derivative financial liabilities	17	–	(0.9)
Retirement benefit obligations		(0.7)	(0.6)
Provisions for other liabilities and charges	20	(22.2)	(15.9)
		(140.9)	(125.8)
Current liabilities			
Bank overdrafts and borrowings	21	(65.2)	(143.0)
Derivative financial liabilities	17	(12.5)	(1.6)
Trade and other payables	19	(406.0)	(399.8)
Provisions for other liabilities and charges	20	(10.3)	(10.7)
Income tax liabilities		(86.8)	(76.6)
		(580.8)	(631.7)
Total liabilities		(721.7)	(757.5)
Net assets		1,451.5	1,208.0
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary share capital	22	0.2	0.2
Share premium account		207.6	204.8
Capital reserve	22	45.3	40.0
Hedging reserve	22	(0.3)	5.6
Foreign currency translation reserve	22	147.3	104.7
Retained earnings		1,000.8	810.1
Equity attributable to owners of the Company		1,400.9	1,165.4
Non-controlling interest in equity		50.6	42.6
Total equity		1,451.5	1,208.0

The consolidated financial statements of Burberry Group plc (registered number 03458224) on pages 116 to 160 were approved by the Board on 19 May 2015 and signed on its behalf by:

Sir John Peace
Chairman

Carol Fairweather
Chief Financial Officer

Group Statement of Changes in Equity

	Note	Attributable to owners of the Company				Total £m	Non- controlling interest £m	Total equity £m
		Ordinary share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m			
Balance as at 31 March 2013		0.2	203.6	197.3	615.9	1,017.0	35.8	1,052.8
Profit for the year		–	–	–	322.5	322.5	9.8	332.3
Other comprehensive income:								
Cash flow hedges	22	–	–	(5.0)	–	(5.0)	–	(5.0)
Foreign currency translation differences		–	–	(50.9)	–	(50.9)	(3.7)	(54.6)
Tax on other comprehensive income		–	–	5.9	–	5.9	–	5.9
Total comprehensive income for the year		–	–	(50.0)	322.5	272.5	6.1	278.6
Transfer between reserves		–	–	3.0	(3.0)	–	–	–
Transactions with owners:								
Employee share incentive schemes								
Value of share options granted		–	–	–	25.4	25.4	–	25.4
Value of share options transferred to liabilities		–	–	–	(0.8)	(0.8)	–	(0.8)
Tax on share options granted		–	–	–	3.8	3.8	–	3.8
Exercise of share options		–	1.2	–	–	1.2	–	1.2
Sale of own shares by ESOP trusts		–	–	–	1.7	1.7	–	1.7
Purchase of own shares by ESOP trusts		–	–	–	(24.7)	(24.7)	–	(24.7)
Capital contribution by non-controlling interest		–	–	–	–	–	0.7	0.7
Dividends paid in the year		–	–	–	(130.7)	(130.7)	–	(130.7)
Balance as at 31 March 2014		0.2	204.8	150.3	810.1	1,165.4	42.6	1,208.0
Profit for the year		–	–	–	336.3	336.3	4.8	341.1
Other comprehensive income:								
Cash flow hedges	22	–	–	(7.4)	–	(7.4)	–	(7.4)
Foreign currency translation differences		–	–	46.5	–	46.5	5.5	52.0
Tax on other comprehensive income		–	–	(2.9)	–	(2.9)	–	(2.9)
Total comprehensive income for the year		–	–	36.2	336.3	372.5	10.3	382.8
Transfer between reserves		–	–	5.8	(5.8)	–	–	–
Transactions with owners:								
Employee share incentive schemes								
Value of share options granted		–	–	–	21.0	21.0	–	21.0
Value of share options transferred to liabilities		–	–	–	(0.8)	(0.8)	–	(0.8)
Tax on share options granted		–	–	–	5.2	5.2	–	5.2
Exercise of share options		–	2.8	–	–	2.8	–	2.8
Purchase of own shares by ESOP trusts		–	–	–	(19.2)	(19.2)	–	(19.2)
Acquisition of additional interest in subsidiary from non-controlling interest		–	–	–	(1.1)	(1.1)	(2.3)	(3.4)
Capital contribution by non-controlling interest		–	–	–	–	–	0.4	0.4
Dividends paid in the year		–	–	–	(144.9)	(144.9)	(0.4)	(145.3)
Balance as at 31 March 2015		0.2	207.6	192.3	1,000.8	1,400.9	50.6	1,451.5

Group Statement of Cash Flows

	Note	Year to 31 March 2015 £m	Year to 31 March 2014 £m
Cash flows from operating activities			
Operating profit		440.3	445.4
Depreciation		104.0	105.6
Amortisation		34.6	33.0
Net impairment charges		4.1	12.3
Loss/(profit) on disposal of property, plant and equipment and intangible assets		2.1	(1.3)
Gain on derivative instruments		(2.0)	(3.8)
Charges in respect of employee share incentive schemes		21.0	25.4
(Payment)/proceeds from settlement of equity swap contracts		(0.2)	15.7
Increase in inventories		(15.1)	(68.2)
Increase in receivables		(43.8)	(73.8)
Increase in payables		23.1	45.2
Cash generated from operating activities		568.1	535.5
Interest received		3.8	3.4
Interest paid		(2.6)	(2.6)
Taxation paid		(114.4)	(111.1)
Net cash generated from operating activities		454.9	425.2
Cash flows from investing activities			
Purchase of property, plant and equipment		(127.8)	(129.5)
Purchase of intangible assets		(27.9)	(24.5)
Proceeds from sale of property, plant and equipment		–	3.0
Proceeds from sale of intangible assets		1.3	–
Acquisition of subsidiaries, net of cash acquired		–	(2.6)
Net cash outflow from investing activities		(154.4)	(153.6)
Cash flows from financing activities			
Dividends paid in the year	11	(144.9)	(130.7)
Dividends paid to non-controlling interest		(0.4)	–
Capital contributions by non-controlling interest		0.4	0.7
Payment to acquire additional interest in subsidiary from non-controlling interest		(3.4)	–
Issue of ordinary share capital		2.8	1.2
Sale of own shares by ESOP trusts		–	1.7
Purchase of own shares by ESOP trusts		(19.2)	(24.7)
Net cash outflow from financing activities		(164.7)	(151.8)
Net increase in cash and cash equivalents		135.8	119.8
Effect of exchange rate changes		13.9	(13.9)
Cash and cash equivalents at beginning of year		402.5	296.6
Cash and cash equivalents at end of year		552.2	402.5

Analysis of Net Cash

	Note	As at 31 March 2015 £m	As at 31 March 2014 £m
Cash and cash equivalents as per the Balance Sheet	18	617.4	545.5
Bank overdrafts	21	(65.2)	(143.0)
Net cash		552.2	402.5

GROUP INCOME STATEMENT

		Year to 31 March 2018 £m	Year to 31 March 2017 £m
	Note		
Revenue	3	2,732.8	2,766.0
Cost of sales		(835.4)	(832.9)
Gross profit		1,897.4	1,933.1
Net operating expenses	4	(1,487.1)	(1,538.8)
Operating profit		410.3	394.3
Financing			
Finance income		7.8	5.5
Finance expense		(3.5)	(1.8)
Other financing charge		(2.0)	(3.2)
Net finance income	9	2.3	0.5
Profit before taxation	5	412.6	394.8
Taxation	10	(119.0)	(107.1)
Profit for the year		293.6	287.7
Attributable to:			
Owners of the Company		293.5	286.8
Non-controlling interest		0.1	0.9
Profit for the year		293.6	287.7
Earnings per share			
Basic	11	68.9p	65.3p
Diluted	11	68.4p	64.9p
Reconciliation of adjusted profit before taxation:			
		£m	£m
Profit before taxation		412.6	394.8
Adjusting items:			
Adjusting operating items	7	56.3	64.4
Adjusting financing items	7	2.0	3.2
Adjusted profit before taxation – non-GAAP measure		470.9	462.4
Adjusted earnings per share – non-GAAP measure			
Basic	11	82.8p	77.9p
Diluted	11	82.1p	77.4p
Dividends per share			
Interim	12	11.0p	10.5p
Proposed final (not recognised as a liability at 31 March)	12	30.3p	28.4p

GROUP STATEMENT OF COMPREHENSIVE INCOME

		Year to 31 March 2018 £m	Year to 31 March 2017 £m
	Note		
Profit for the year		293.6	287.7
Other comprehensive income ¹ :			
Cash flow hedges	23	(10.0)	4.7
Net investment hedges	23	2.3	(2.3)
Foreign currency translation differences		(50.2)	103.1
Tax on other comprehensive income:			
Cash flow hedges	10	1.9	(1.0)
Net investment hedges	10	(0.4)	0.5
Foreign currency translation differences	10	3.6	(5.4)
Other comprehensive income for the year, net of tax		(52.8)	99.6
Total comprehensive income for the year		240.8	387.3
Total comprehensive income attributable to:			
Owners of the Company		241.2	384.6
Non-controlling interest		(0.4)	2.7
		240.8	387.3

1. All items included in other comprehensive income may subsequently be reclassified to profit and loss in a future period.

GROUP BALANCE SHEET

	Note	As at 31 March 2018 £m	As at 31 March 2017 £m
ASSETS			
Non-current assets			
Intangible assets	13	180.1	170.1
Property, plant and equipment	14	313.6	399.6
Investment properties		2.6	2.6
Deferred tax assets	15	115.5	125.0
Trade and other receivables	16	69.2	76.4
Derivative financial assets	18	0.3	1.1
		681.3	774.8
Current assets			
Inventories	17	411.8	505.3
Trade and other receivables	16	206.3	275.6
Derivative financial assets	18	1.6	5.0
Income tax receivables		6.7	9.2
Cash and cash equivalents	19	915.3	843.5
		1,541.7	1,638.6
Total assets		2,223.0	2,413.4
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	(168.1)	(101.9)
Deferred tax liabilities	15	(4.2)	(0.4)
Derivative financial liabilities	18	(0.1)	–
Retirement benefit obligations		(0.9)	(0.9)
Provisions for other liabilities and charges	21	(71.4)	(47.3)
		(244.7)	(150.5)
Current liabilities			
Bank overdrafts	22	(23.2)	(34.3)
Derivative financial liabilities	18	(3.8)	(3.5)
Trade and other payables	20	(460.9)	(459.1)
Provisions for other liabilities and charges	21	(32.1)	(18.1)
Income tax liabilities		(32.9)	(50.1)
		(552.9)	(565.1)
Total liabilities		(797.6)	(715.6)
Net assets		1,425.4	1,697.8
EQUITY			
Capital and reserves attributable to owners of the Company			
Ordinary share capital	23	0.2	0.2
Share premium account		214.6	211.4
Capital reserve	23	41.1	41.1
Hedging reserve	23	3.8	10.0
Foreign currency translation reserve	23	214.7	260.8
Retained earnings		946.1	1,169.0
Equity attributable to owners of the Company		1,420.5	1,692.5
Non-controlling interest in equity		4.9	5.3
Total equity		1,425.4	1,697.8

The consolidated financial statements of Burberry Group plc (registered number 03458224) on pages 137 to 181 were approved by the Board on 15 May 2018 and signed on its behalf by:

MARCO GOBBETTI
Chief Executive Officer

JULIE BROWN
Chief Operating and Chief Financial Officer

Group Balance Sheet

	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

Group Statement of Changes in Equity

		Attributable to owners of the Company						
	Note	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

Group Statement of Cash Flows

Note	Year to 31 March 2017 £m	Year to 31 March 2016 £m
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2016

Group Income Statement

	Note	Year to 31 March 2016 £m	Year to 31 March 2015 £m
Continuing operations			
Revenue	3	2,514.7	2,523.2
Cost of sales		(752.0)	(757.7)
Gross profit		1,762.7	1,765.5
Net operating expenses	4	(1,359.8)	(1,325.2)
Operating profit		402.9	440.3
Financing			
Finance income		5.1	4.4
Finance expense		(2.3)	(3.8)
Other financing income		9.9	3.7
Net finance income	8	12.7	4.3
Profit before taxation	5	415.6	444.6
Taxation	9	(101.0)	(103.5)
Profit for the year		314.6	341.1
Attributable to:			
Owners of the Company		309.5	336.3
Non-controlling interest		5.1	4.8
Profit for the year		314.6	341.1
Earnings per share			
Basic	10	70.0p	76.4p
Diluted	10	69.4p	75.1p
		£m	£m
Reconciliation of adjusted profit before taxation:			
Profit before taxation		415.6	444.6
Adjusting items:			
Amortisation of the fragrance and beauty licence intangible in operating expenses	6	14.9	14.9
Put option liability finance income	6	(9.9)	(3.7)
Adjusted profit before taxation – non-GAAP measure		420.6	455.8
Adjusted earnings per share – non-GAAP measure			
Basic	10	70.5p	78.3p
Diluted	10	69.9p	76.9p
Dividends per share			
Interim	11	10.2p	9.7p
Proposed final (not recognised as a liability at 31 March)	11	26.8p	25.5p

Group Statement of Comprehensive Income

	Note	Year to 31 March 2016 £m	Year to 31 March 2015 £m
Profit for the year		314.6	341.1
Other comprehensive income ¹ : Cash flow hedges	22	10.8	(7.4)

Net investment hedges	(0.8)	—
Foreign currency translation differences	20.4	52.0
Tax on other comprehensive income: Cash flow hedges	(2.2)	1.5
Net investment hedges	0.6	—
Foreign currency translation differences	(1.9)	(4.4)
Other comprehensive income for the year, net of tax	26.9	41.7
Total comprehensive income for the year	341.5	382.8
Total comprehensive income attributable to: Owners of the Company	335.5	372.5
Non-controlling interest	6.0	10.3
	341.5	382.8

1 All items included in other comprehensive income may subsequently be reclassified to profit and loss in a future period.

Consolidated Statement of Cash Flows

of the HUGO BOSS group for the period from January 1 to December 31, 2017

Consolidated statement of cash flows (in EUR thousand)

	Notes	2017	2016
	(24)		
Net income		231,201	193,645
Depreciation/amortization	(8)	158,824	169,179
Unrealized net foreign exchange gain/loss		21,549	(6,576)
Other non-cash transactions		(1,207)	4,980
Income tax expense/refund	(6)	100,091	61,991
Interest income and expenses	(5)	2,703	2,162
Change in inventories		2,886	(5,320)
Change in receivables and other assets		(12,752)	13,716
Change in trade payables and other liabilities		38,813	(1,097)
Result from disposal of non-current assets		(906)	(2,542)
Change in provisions for pensions	(18)	(8,019)	5,321
Change in other provisions		(35,231)	43,332
Income taxes paid		(77,388)	(105,708)
Cash flow from operations		420,564	373,083
Interest paid	(5)	(2,113)	(2,380)
Interest received	(5)	1,605	1,559
Cash flow from operating activities		420,056	372,262
Investments in property, plant and equipment	(9)	(91,001)	(121,477)
Investments in intangible assets	(9)	(28,019)	(31,025)
Acquisition of subsidiaries and other business entities less cash and cash equivalents acquired	(24)	(7,262)	(2,825)
Effects from disposal of subsidiaries		(1,069)	0
Cash receipts from sales of property, plant and equipment and intangible assets		847	3,296
Cash flow from investing activities		(126,504)	(152,031)
Dividends paid to equity holders of the parent company	(16)	(179,442)	(249,839)
Dividends paid to non-controlling interests		0	0
Change in current financial liabilities	(21)	(5,796)	32,844
Cash receipts from non-current financial liabilities	(21)	0	3,842
Repayment of non-current financial liabilities	(21)	(68,853)	(5,479)

	Notes	2017	2016
Cash outflows for the purchase of additional interests in subsidiaries without change of control		0	0
Cash flow from financing activities		(254,091)	(218,632)
Changes in basis of consolidation		(1,589)	0
Exchange-rate related changes in cash and cash equivalents		(5,662)	482
Change in cash and cash equivalents		32,210	2,081
Cash and cash equivalents at the beginning of the period		83,490	81,409
Cash and cash equivalents at the end of the period	(14)	115,700	83,490

Consolidated Income Statement

of the HUGO BOSS Group for the period from January 1 to December 31, 2015

Consolidated Income Statement (in EUR thousand)

	Notes	2015	2014
Sales	(1)	2,808,746	2,571,616
Cost of sales	(2)	(955,930)	(872,523)
Gross profit		1,852,816	1,699,093
In % of sales		66.0	66.1
Selling and distribution expenses	(3)	(1,136,551)	(994,861)
Administration expenses	(4)	(264,307)	(236,204)
Other operating income and expenses	(5)	(4,246)	(19,307)
Operating result (EBIT)		447,712	448,721
Net interest income/expenses		(5,901)	(4,518)
Other interest and similar income		1,190	1,627
Interest and similar expenses		(7,091)	(6,145)
Other financial items		(21,837)	(7,055)
Financial result	(6)	(27,738)	(11,573)
Earnings before taxes		419,974	437,148
Income taxes	(7)	(100,556)	(102,668)
Net income		319,418	334,480
Attributable to:			
Equity holders of the parent company		319,355	333,262
Non-controlling interests	(8)	63	1,218
Earnings per share (EUR)¹	(9)	4.63	4.83
Dividend per share (EUR)	(24)	3.62²	3.62

¹ Basic and diluted earnings per share.

² 2015: Proposed dividend.

	Notes	2015	2014
Cash outflows for the purchase of additional interests in subsidiaries without change of control		(114)	(18,838)
Cash flow from financing activities		(255,368)	(261,537)
Exchange-rate related changes in cash and cash equivalents		520	2,563
Change in cash and cash equivalents		(47,222)	9,389
Cash and cash equivalents at the beginning of the period		128,631	119,242
Cash and cash equivalents at the end of the period	(18)	81,409	128,631

CONSOLIDATED INCOME STATEMENT

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated income statement (in EUR thousand)

	Notes	2017	2016
Sales	(1)	2,732,573	2,692,846
Cost of sales	(1)	(924,278)	(915,384)
Gross profit		1,808,295	1,777,462
In % of sales	(2)	66.2	66.0
Selling and distribution expenses	(3)		
	(4)	(1,195,453)	(1,175,454)
Administration expenses		(280,275)	(271,804)
Other operating income and expenses		8,487	(66,701)
Operating result (EBIT)		341,054	263,503
Net interest income/expenses	(5)	(2,703)	(2,162)
Other interest and similar income		1,608	1,567
Interest and similar expenses	(6)	(4,311)	(3,729)
Other financial items		(7,059)	(5,705)
Financial result		(9,762)	(7,867)
Earnings before taxes		331,292	255,636
Income taxes	(7)	(100,091)	(61,991)
Net income	(16)	231,201	193,645
Attributable to:			
Equity holders of the parent company		231,147	193,513
Non-controlling interests		54	132
Earnings per share (EUR) ¹		3.35	2.80
Dividend per share (EUR)		2.65 ²	2.60

¹ Basic and diluted earnings per share.

² 2017: Proposed dividend.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

of the HUGO BOSS Group for the period from January 1 to December 31, 2017

Consolidated statement of comprehensive income (in EUR thousand)

	2017	2016
Net income	231,201	193,645
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	3,415	(2,817)
Items to be reclassified subsequently to profit or loss		
Currency differences	(27,612)	(7,486)
Gains/losses from cash flow hedges	897	(2,252)
Other comprehensive income, net of tax	(23,300)	(12,555)
Total comprehensive income	207,901	181,090
Attributable to:		
Equity holders of the parent company	207,847	180,879
Non-controlling interests	54	211
Total comprehensive income	207,901	181,090

Consolidated Statement of Financial Position

1. Consolidated income statement

<i>(EUR millions, except earnings per share)</i>	<i>Notes</i>	Dec. 31, 2016 (6 months)	June 30, 2016 (12 months)	June 30, 2015 (12 months)
Revenue	<i>24-25</i>	21,436	37,968	35,081
Cost of sales		(7,401)	(13,078)	(12,307)
Gross margin		14,035	24,890	22,774
Marketing and selling expenses		(8,180)	(15,190)	(13,828)
General and administrative expenses		(1,618)	(2,907)	(2,647)
Income (loss) from joint ventures and associates	<i>8</i>	1	(1)	(3)
Profit from recurring operations	<i>24-25</i>	4,238	6,792	6,296
Other operating income and expenses	<i>26</i>	(93)	(196)	(298)
Operating profit		4,145	6,596	5,998
Cost of net financial debt		(63)	(97)	(164)
Other financial income and expenses		(221)	(270)	2,849
Net financial income (expense)	<i>27</i>	(284)	(367)	2,685
Income taxes	<i>28</i>	(1,137)	(2,065)	(2,518)
Net profit before minority interests		2,724	4,164	6,165
Minority interests	<i>18</i>	1,666	2,595	3,787
Net profit, Group share		1,058	1,569	2,378
Basic Group share of net earnings per share (EUR)	<i>29</i>	5.90	8.75	13.29
Number of shares on which the calculation is based		179,367,681	179,213,608	178,928,184
Diluted Group share of net earnings per share (EUR)	<i>29</i>	5.86	8.69	13.18
Number of shares on which the calculation is based		179,973,046	179,894,454	179,684,869

2. Consolidated statement of comprehensive gains and losses

<i>(EUR millions)</i>	<i>Notes</i>	Dec. 31, 2016 (6 months)	June 30, 2016 (12 months)	June 30, 2015 (12 months)
Net profit before minority interests		2,724	4,164	6,165
Translation adjustments	16.4	268	(238)	1,183
Amounts transferred to income statement		(32)	-	-
Tax impact		1	(2)	220
		237	(240)	1,403
Change in value of available for sale financial assets	9, 14	92	(130)	397
Amounts transferred to income statement		24	(22)	(3,406)
Tax impact		(4)	7	212
		112	(145)	(2,797)
Change in value of hedges of future foreign currency cash flows		9	(28)	(3)
Amounts transferred to income statement		(14)	27	(16)
Tax impact		1	(4)	14
		(4)	(5)	(5)
Gains and losses recognized in equity, transferable to income statement		345	(390)	(1,399)
Change in value of vineyard land	7	30	64	(20)
Amounts transferred to consolidated reserves		-	-	3
Tax impact		108	(22)	8
		138	42	(9)
Employee benefit commitments: change in value resulting from actuarial gains and losses	30	(8)	(40)	(148)
Tax impact		(6)	8	47
		(14)	(32)	(101)
Gains and losses recognized in equity, not transferable to income statement		124	10	(110)
Gains and losses recognized in equity		469	(380)	(1,509)
Comprehensive income		3,193	3,784	4,656
Minority interests		1,967	2,387	2,960
COMPREHENSIVE INCOME, GROUP SHARE		1,226	1,397	1,696

Consolidated financial statements
Consolidated income statement

1. Consolidated income statement

	Dec. 31, 2017 (12 months)	Dec. 31, 2016 (6 months)	June 30, 2016 (12 months)
<i>(EUR millions, except earnings per share)</i>			
Revenue	43,666	21,436	37,968
Cost of sales	(15,084)	(7,401)	(13,078)
Gross margin	28,582	14,035	24,890
Marketing and selling expenses	(16,959)	(8,180)	(15,190)
General and administrative expenses	(3,250)	(1,618)	(2,907)
Income (loss) from investments in joint ventures and associates	-	1	(1)
Profit from recurring operations	8,373	4,238	6,792
Other operating income and expenses	(174)	(93)	(196)
Operating profit	8,199	4,145	6,596
Cost of net financial debt	(81)	(63)	(97)
Other financial income and expenses	(122)	(221)	(270)
Net financial income (expense)	(203)	(284)	(367)
Income taxes	(2,243)	(1,137)	(2,065)
Net profit before minority interests	5,753	2,724	4,164
Minority interests	3,513	1,666	2,595
Net profit, Group share	2,240	1,058	1,569
Basic Group share of net earnings per share (EUR)	12.47	5.90	8.75
Number of shares on which the calculation is based	179,596,082	179,367,681	179,213,608
Diluted Group share of net earnings per share (EUR)	12.40	5.86	8.69
Number of shares on which the calculation is based	180,093,616	179,973,046	179,894,454

3. Consolidated balance sheet

Assets

(EUR millions)

	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016
Brands and other intangible assets	16,078	16,069	16,269
Goodwill	12,301	11,045	11,256
Property, plant and equipment	13,218	12,962	12,106
Investments in joint ventures and associates	639	764	753
Non- current available for sale financial assets	789	750	651
Other non- current assets	869	823	711
Deferred tax	1,738	2,136	2,158
Non-c urrent assets	45,632	44,549	43,904
Inventories and work in progress	10,908	10,929	11,053
Trade accounts receivable	2,737	2,785	2,237
Income taxes	780	297	357
Other current assets	5,119	2,452	2,318
Cash and cash equivalents	7,586	3,772	3,035
Current assets	27,130	20,235	19,000
TOTAL ASSETS	72,762	64,784	62,904

Liabilities and equity

(EUR millions)

	Dec. 31, 2017	Dec. 31, 2016	June 30, 2016
Share capital	361	361	361
Share premium account	194	194	194
Christian Dior treasury shares	(72)	(104)	(109)
Cumulative translation adjustment	154	520	441
Revaluation reserves	620	442	351
Other reserves	9,285	9,367	8,260
Net profit, Group share	2,240	1,058	1,569
Equity, Group share	12,782	11,838	11,067
Minority interests	19,951	18,246	17,062
Equity	32,733	30,084	28,129
Long- term borrowings	7,893	5,241	5,453
Non- current provisions	2,578	2,386	2,037
Deferred tax	4,583	4,894	5,584
Other non- current liabilities	9,857	8,509	8,475
Non-c urrent liabilities	24,911	21,030	21,549
Short- term borrowings	4,553	3,854	4,918
Trade accounts payable	4,540	4,384	3,835

Income taxes	853	456	425
Current provisions	404	354	355
Other current liabilities	4,768	4,622	3,693
Current liabilities	15,118	13,670	13,226
TOTAL LIABILITIES AND EQUITY	72,762	64,784	62,904

3. Consolidated balance sheet

Assets

<i>(EUR millions)</i>	<i>Notes</i>	Dec. 31, 2016	June 30, 2016	June 30, 2015
Brands and other intangible assets	4	16,069	16,269	16,242
Goodwill	5	11,045	11,256	10,365
Property, plant and equipment	7	12,962	12,106	11,418
Investments in joint ventures and associates	8	764	753	521
Non-current available for sale financial assets	9	750	651	632
Other non-current assets	10	823	711	561
Deferred tax	28	2,136	2,158	2,031
Non-current assets		44,549	43,904	41,770
Inventories and work in progress	11	10,929	11,053	10,704
Trade accounts receivable	12	2,785	2,237	2,173
Income taxes		297	357	436
Other current assets	13	2,452	2,318	2,176
Cash and cash equivalents	15	3,772	3,035	2,771
Current assets		20,235	19,000	18,260
TOTAL ASSETS		64,784	62,904	60,030

Liabilities and equity

<i>(EUR millions)</i>	<i>Notes</i>	Dec. 31, 2016	June 30, 2016	June 30, 2015
Share capital	16.1	361	361	361
Share premium account	16.1	194	194	194
Christian Dior treasury shares	16.2	(104)	(109)	(116)
Cumulative translation adjustment	16.4	520	441	554
Revaluation reserves		442	351	412
Other reserves		9,367	8,260	6,490
Net profit, Group share		1,058	1,569	2,378
Equity, Group share		11,838	11,067	10,273
Minority interests	18	18,246	17,062	16,047
Equity		30,084	28,129	26,320
Long-term borrowings	19	5,241	5,453	6,130
Non-current provisions	20	2,386	2,037	2,377
Deferred tax	28	4,894	5,584	5,738
Other non-current liabilities	21	8,509	8,475	7,262
Non-current liabilities		21,030	21,549	21,507
Short-term borrowings	19	3,854	4,918	4,425
Trade accounts payable	22.1	4,384	3,835	3,602
Income taxes		456	425	431
Current provisions	20	354	355	323
Other current liabilities	22.2	4,622	3,693	3,422
Current liabilities		13,670	13,226	12,203
TOTAL LIABILITIES AND EQUITY		64,784	62,904	60,030