

BASIS OF REPORTING 2015/16

DIRECTORS' REPORT

Introduction

This document provides additional information on selected KPIs, claims relating to progress against targets, and other selected performance claims in the Directors' Report section of the 2015/16 Annual Report and Accounts that have been reviewed during Ernst & Young LLP's (EY's) assurance activities.

KPIs that have been tested for accuracy and completeness:

KPI: 548 Audits and assessments

- Audits are defined as social audits, carried out predominantly by internal parties, but also third parties as required.
- Social audits are onsite assessments of suppliers' labour conditions against the Burberry Ethical Trading Code of Conduct.
- Audits can be announced or unannounced, and include follow-up audits to assess progress on issues identified during previous audits.
- Audits include, but are not limited to, a review of working hours, wages and other personnel documentation, as well as interviews with workers.

KPI: 217 Engagement activities and training

This indicator includes the following Ethical Trading activities:

- **Factory visits:** are defined as time spent by the Burberry team meeting with suppliers on site to support the factory in any non-compliance remediation.
- **Improvement programmes:** are designed to provide support to suppliers in developing systems to achieve sustainable and long-term improvements in labour practices.
- **Training:** may include classroom or site training delivered either by Burberry or a third party to supplier owners, managers and workers. This also includes specific training for Chinese speaking workers in relation to the confidential hotline and health awareness training for workers.

KPI: Nearly 20,000 workers at 33 factories with access to a confidential hotline.

- Hotline provision is prioritised where grievance mechanisms are absent or weak. Hotlines are available at selected factories with Chinese speaking workers.
- Hotlines are staffed by independent third-party providers and workers can contact the hotline using phone, Skype or QQ (free instant messaging).
- The hotline is used to communicate grievances, as a counselling line and for seeking advice on labour rights.
- The Burberry approved contracted hotline service providers directly train workers onsite at factories in how to use the hotline.
- All factories that had a hotline present during the reporting year are included in the scope of reporting. The number of workers is defined as the number of workers with hotline access as recorded at each factory during the most recent audit.

KPI: Percentages of factories deemed 'Satisfactory', 'Acceptable, with need for Improvement' and 'Rejected', between 1 October 2014 and 31 March 2016.

- Burberry uses social audits to understand labour conditions in factories and identify any non-compliance with the Burberry Ethical Trading Code of Conduct. Audits are conducted with tier 1, tier 2 and selected tier 3 suppliers, prior to placing a production order and on a periodic basis.

- The scope of the reported data includes apparel and non-apparel suppliers but excludes Beauty and Fragrance suppliers, licensee factories and the raw material suppliers that participate in our ethical trading programme. A small number of tier 3 suppliers are accepted without a full audit where these are deemed to be low risk.
- Based on findings, factories are classified as 'Satisfactory', 'Acceptable, with need for improvement' and 'Rejected', to help Burberry minimise risk and, where required, support factories to improve their labour conditions.
- 'Satisfactory' are factories found either fully compliant with the Burberry Ethical Trading Code of Conduct or exhibiting only minor non-compliance with the Code. 'Satisfactory' factories can be used for the production of Burberry goods.
- 'Acceptable, with need for improvement' are factories exhibiting some non-compliance with the Burberry Ethical Trading Code of Conduct, but willing to implement improvements as required. These factories are acceptable as production partners, but are provided with a Corrective Action Plan (CAP) and a clear timeline by which factories are expected to have rectified any non-compliance.
- 'Rejected' are factories exhibiting severe non-compliance with the Burberry Ethical Trading Code of Conduct and unwilling or unable to rectify their non-compliance. As a result, these factories are rejected and cannot be used for the production of Burberry goods.

KPI: 42,288,185 KgCO₂e total scope 1&2 greenhouse gas emissions; 17 KgCO₂e /£1,000 sales revenue.

- Burberry reports energy data for electricity, gas and fuel oil. Energy data is converted into carbon dioxide equivalent (CO₂e) for disclosure purposes.
- 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. This differs from the financial reporting boundaries, as some sites where Burberry has an equity interest but no control are not reported. Overall, the emissions inventory reported equates to 95% of Burberry's sq.ft. (net selling space).
- All material sources of emissions are reported. Refrigerant gases and fuels consumed in company vehicles were deemed not material and are not reported.
- Data for electricity, gas and fuel oil use is collected on a quarterly basis. This data is collected by regional data contacts, who collect and enter site level data within a global energy reporting system. The data is then subject to a series of internal reviews conducted at the group-level.
- Burberry uses the Greenhouse Gas Protocol methodology for calculating greenhouse gas emissions from energy data. Scope 2 data is reported on a location basis only; market-based emissions are not reported.
- The most current DEFRA conversion factors are used for all CO₂e calculations, where available. Alternatively factors from the International Energy Agency (IEA) Statistics Report 'CO₂ Emissions from Fuel Combustion Highlights', 2014 edition, are applied. This year DEFRA 2015 factors were used throughout and are available at: <http://www.ukconversionfactorscarbonsmart.co.uk/>
- Audited sales revenue data is used to calculate the intensity metric of KgCO₂e /£1,000 of sales revenue.
- Burberry have updated Greenhouse Gas data for 2013-14 and 2014-15 to account for improvements in data availability and estimation methods. A further restatement to 2014/15 scope 1 emissions has been made to account for natural gas consumption at our Vineland and Horseferry House locations that was not previously reported.

KPI: 2,300 employees in 74 cities dedicated almost 12,000 hours

- Burberry reports on the number of employees participating in its global volunteering initiatives as well as local community programmes.
- Volunteering hours are based on the time dedicated by these employees to volunteering activities during working hours.
- The scope of reporting covers all Burberry employees, as listed on the company's Salesforce system. As there can sometimes be a delay in listing employees on Salesforce, it is acknowledged that a small proportion of employee volunteering is not

captured.

Claims that have been substantiated in relation to progress against environmental sustainability targets:

EY has reviewed evidence that supports the claims of progress made against the following targets. This includes a review of inputs (actions undertaken by management to establish processes that will deliver performance improvements) and outputs (measurements of performance improvement against Burberry's stated baseline where available).

- Improve the social and environmental impacts of how we source cotton and cashmere.
- Reduce the environmental impacts of leather.
- Eliminate chemicals from use that have a negative impact on the environment, beyond legal limits.
- Reduce the energy use from Burberry's two UK manufacturing sites by 25%, when normalised by relevant productivity factor.
- Work with key suppliers to assist them in reducing their energy use by up to 20%, when normalised by a relevant productivity factor.
- Work with key mills to assist them in reducing their energy use by up to 20%, when normalised by a relevant productivity factor.
- Reduce energy use in Burberry's five third-party distribution centres by 10%, when normalised by a relevant productivity factor.
- 30% of wood by spend is either recycled materials or sourced from certified supply chains.

Additional performance claims that have been substantiated:

EY has reviewed evidence to support the following performance claim:

- As measured through the audit programme, Burberry has recorded an overall positive shift in ethical trading performance by the Company's apparel and non-apparel partners.