

CHAIRMAN'S LETTER



SIR JOHN PEACE
Chairman

WE ARE ON TRACK FOR THE NEXT PHASE OF BURBERRY'S TRANSFORMATION

With a new Chief Executive Officer, Chief Creative Officer and strategy, this has been the most important year in Burberry's recent history.

We welcomed Marco Gobbetti to the role of CEO on 5 July 2017. After several further key appointments to the leadership team, we were delighted that Riccardo Tisci joined us in the crucial role of Chief Creative Officer on 12 March 2018, succeeding Christopher Bailey.

STRATEGY

Following Marco's appointment as CEO, the Board conducted a review of the Company's strategy with management in the context of a rapidly changing luxury market. The Board was united in the view that to win with today's customer, Burberry must sharpen its brand positioning.

This will require us to change our approach to product, communications and customer experience, enabled by our ongoing focus on operational excellence and our people initiative. We believe that the combination will deliver sustainable long-term value for customers, employees and society and reward our shareholders.

Throughout this report, there are early highlights of how these changes are being embedded in the organisation, and our initial progress against our plans.

LEADERSHIP TEAM

In Marco Gobbetti, Burberry has a leader with an outstanding track record of delivering growth. With a strengthened leadership team now in place, his vision and expertise in luxury brand transformation together with Julie Brown's financial and commercial acumen, Burberry has the talent and the capabilities to deliver on its plans.

As Burberry embarks on this next chapter, Christopher Bailey, who has been a driving force behind the Company's transformation since 2001, decided that it was the right time for him to pursue new creative projects. Christopher stepped down from the Board on 31 March 2018. On behalf of the Board, I would like to thank him for his exceptional contribution to Burberry and wish him every success for the future.

We are delighted that Riccardo Tisci has decided to join us. Riccardo previously spent more than a decade at Givenchy, where he was Creative Director from 2005 to 2017. There is excitement throughout the Company, and particularly among the creative team, about the quality of individual we have been able to attract to the role.

SHAREHOLDER RETURNS

The Group ended the year with a strong cash balance of £892m, up £83m year-on-year after £355m of share buyback and £169m of dividends. Consequently, the Board has recommended a 6% increase in the full-year dividend to 41.3p, 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 continued confidence in the future growth of the business.

Our approach to capital allocation is based on a framework that defines our priorities for uses of cash. This is underpinned by our principle to maintain a strong balance sheet, with solid investment grade credit metrics. We believe this demonstrates our ongoing commitment to appropriately using our cash to optimise shareholder returns over time.

Over the past five years, Burberry has returned around £770m to shareholders through dividends, and over the past two years has completed £450m of share buybacks (including £150m from the Coty transaction). We have approved a continuation of the share buyback programme of £150m in FY 2018/19.

BOARD DEVELOPMENTS

The composition of our Board continued to evolve over the year, with the appointment of two new non-executive directors and one longer-serving Board member stepping down, as noted below. I also announced my intention to step down as Chairman and from the Board after 16 years.

Following a search led by Senior Independent Director Jeremy Darroch, Burberry appointed Dr. Gerry Murphy as Chairman designate. Gerry has extensive experience in the consumer and retail industries and I am confident he is the right choice as Burberry embarks on a new chapter. Gerry will succeed me after the Company's Annual General Meeting on 12 July 2018.

Our aim is to continue to refresh the Board while ensuring stability and continuity, particularly in the context of significant management change and the implementation of our new strategy.

On behalf of the Board, I would like to thank Philip Bowman for his tremendous contribution to Burberry since our IPO in 2002. We have greatly appreciated Philip's wise counsel and he will be missed by us all.

Ron Frasch joined the Board as a non-executive director in September 2017. He brings a great understanding of the US luxury market, product and a broad experience of working with a wide range of luxury brands. Orna NiChionna also joined the Board as a non-executive director in January 2018. In addition to her experience on remuneration matters, she brings strong UK plc and relevant business experience to the Board.

REMUNERATION

Our Remuneration Policy was presented to shareholders for their vote at last year's Annual General Meeting (AGM). We thank shareholders for their support, with a vote received in favour of 93%. Shareholders also supported the FY 2017/18 Directors' Remuneration Report but with a lower vote in favour.

The Board took proactive measures to address concerns with the report following its publication, and we appreciate the importance of shareholder alignment on remuneration matters. Our aim is to continue to build on the constructive dialogue we have established, and we recommend shareholders vote in favour of this year's Directors' Remuneration Report; see pages 96 to 121.

GOVERNANCE AND DIVERSITY

The Board seeks to operate to the highest standards of corporate governance. The work of our Board and its Committees during the year, along with the assessment of their performance, is set out in the Corporate Governance Report on pages 75 to 121.

Burberry continues to support diversity in all its forms across the organisation including the Board, seeing the value it brings to discussions around the Board table, and within the Executive Team. While all Board appointments are made on merit, we continue to believe in the importance of a diverse Board and are proud that Burberry has always had strong gender diversity among its membership, including at executive level. The Board will continue to monitor diversity on the Board and in the business, and take steps to maintain its position as a meritocratic and diverse company, recognising not just its moral obligations but the value and benefit diversity brings to an organisation.

LOOKING TO THE FUTURE

Looking ahead to FY 2018/19, we will focus on embedding our strategic vision into the organisation. We are building on strong foundations, and are fully focused on successfully delivering our multi-year strategic plan and delivering sustainable long-term value. Just as important, our leadership team is supported by having the right people in place throughout the organisation.

I would like to end by thanking all our talented and committed colleagues for their unstinting hard work and dedication during this time of change. I would also like to thank current and past Board members for their partnership over the past 16 years. Finally, I would like to thank you, our shareholders, once more for your support.

SIR JOHN PEACE
Chairman