

## **BASIS OF REPORTING 2016/17**

### **Introduction**

This document provides additional information on selected KPIs and claims relating to progress against targets in the Responsibility section of the 2016/17 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: 477 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: 234 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 programme visits:** 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: Over 27,000 workers at 53 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 2015 and 31 March 2017.**

- 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: 39,179,734 KgCO<sub>2</sub>e total scope 1&2 greenhouse gas emissions; 25,466,259 KgCO<sub>2</sub>e Total scope 2 using the Market Based methodology; 14 KgCO<sub>2</sub>e /£1,000 sales revenue.**

- Burberry reports energy data for electricity, gas and fuel oil. Energy data is converted into carbon dioxide equivalent (CO<sub>2</sub>e) 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 96% 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 emissions are reported using both the both location and market-based methodology.
- The most current DEFRA conversion factors are used for all CO<sub>2</sub>e calculations, where available. Alternatively factors from the International Energy Agency (IEA) Statistics Report 'CO<sub>2</sub> Emissions from Fuel Combustion Highlights', 2015 edition, are applied. This year DEFRA 2016 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 KgCO<sub>2</sub>e /£1,000 of sales revenue.
- Burberry have updated Greenhouse Gas data for 2014-15 and 2015-16 to account for improvements in data availability and estimation methods.

#### **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).

The basis on which Burberry has achieved or not achieved their environmental targets is provided below.

- Improve the environmental impact of how we source cotton.
  - Final target status: Achieved
  - 3-year farmer training programme delivered in Peru. Results include; 69% reduction in chemical pesticides, 73% increase in natural fertilisers, 14% increase in yield and 100% increase in PPE.
  - Burberry joined BCI (Better Cotton Initiative) and subsequently started procuring Better Cotton credits via key strategic mills.

- Reduce the environmental impacts of leather.
  - Final target status: Achieved
  - 77% of leather used in accessories was sourced from tanneries holding LWG or approved alternative certification.
  - Burberry is actively researching environmental impacts beyond tanners and engaging the wider industry to understand and act on opportunities to mitigate these impacts.
- Take efforts to eliminate chemicals from use that have a negative impact on the environment, beyond legal limits.
  - Final target status: Achieved
  - Development and roll out of Manufacturing Restricted Substances List.
  - Engagement with industry groups to find collaborative industry solutions.
  - 86% (by volume) of direct business partners have appointed chemical managers and 63% (by volume) of indirect business partners have appointed chemical managers.
- 100% of point of sale packaging to be sustainably sourced (where alternatives are available)
  - Final target status: Achieved
  - 100% of packaging sourced from sustainable sources.
  - Packaging includes retail packaging, transit packaging and beauty secondary packaging.
  - Sustainably sourced is defined as FSC certified, post-consumer waste or recycled content
- Work with key suppliers to assist them in reducing their energy use by up to 20%, when normalised by a relevant productivity factor.
  - Final target status: Not Achieved
  - 5% Reduction in energy across 19 sites.
- Work with key mills to assist them in reducing their water consumption by up to 20%, when normalised by a relevant productivity factor.
  - Final target status: Not Achieved
  - 18% Reduction achieved across 9 mills.
  - This target was only missed by 2%, an 'amber rating' has therefore been attributed to denote good progress.
- Reduce carbon emissions from the transport of Burberry products by 10%.
  - Final target status: Not Achieved
  - 10% Increase in transport emissions per unit.
- Reduce energy use in Burberry controlled stores and offices by up to 15%, when normalised by a relevant productivity factor.
  - Final target status: Not Achieved
  - 5% reduction in energy achieved.
- All Burberry controlled stores and offices to be powered either by renewable energy produced on site or by green tariff renewable energy (where available).
  - 53% of controlled stores and offices are powered by renewable energy.
  - Final target status: Not Achieved
  - We have designated the target as amber rated, because we have procured over 50% of our energy from renewable tariffs or onsite renewables and we know that of the remaining 47% there is a proportion where renewable energy is not available.

**Additional environmental performance data that has been assured by EY include:**

- **66% of general waste within our internal operations is recycled**
- **34% of general waste within our internal operations is incinerated with energy recovery**
  - Internal operations cover all UK retail, offices, warehousing and Burberry's two manufacturing facilities.
- **11,396m<sup>3</sup> absolute water use within our internal operations**
  - 2% reduction compared to the previous year.
  - Internal operations cover all UK offices and Burberry's two manufacturing facilities.