

01.4 CORPORATE RESPONSIBILITY

01.4.1 do.THINK AHEAD

- At Zalando, we see the opportunity to reimagine the fashion industry and we want to engage our employees, customers, and partners in finding more sustainable ways to produce fashion, consume, and do business.
- We are convinced that our transformation towards being a more sustainable business contributes to the future success of Zalando.
- With this chapter, we want to present our corporate responsibility strategy and the current status of the 16 material topics at its foundation.

We built our corporate strategy on our purpose of “reimagining fashion for the good of all”. This purpose is also one of the main drivers of our corporate responsibility (CR) strategy. In the face of global developments like resource scarcity, climate change, and increasing inequality, we see a pressing urgency to reimagine our industry in a way that benefits all stakeholders involved in the fashion ecosystem. We believe that we can use our expertise in fashion, technology, and operations to make a substantial contribution to a more transparent and sustainable fashion industry.

On our journey from start-up to grown-up, we have been criticized a lot, at times rightly so. This has made us reflect on the role we want to play in society. We see the reimagination of the fashion industry as an opportunity and we want to engage our employees, customers, and partners to find better ways to produce fashion, consume, and do business. If you want to team up with us and advance our industry towards more sustainability or share your experiences, we invite you to get in touch with us.

ABOUT THIS CHAPTER

In this chapter, we want to give you a short overview on where we stand with our endeavors, where we face challenges, and where we want to go. We want to continuously grow our aspirations in becoming more sustainable and report on our actions transparently. Therefore, we prepared this report about the fiscal year 2016 in accordance with the “Core” option of the latest G4 Guidelines of the Global Reporting Initiative (GRI)⁴. The GRI index can be found on page 195. References next to the text indicate the GRI information given in the corresponding paragraph. The report content has been mainly defined by the results of the materiality analysis, our strategic approach to corporate responsibility, and upcoming legal requirements on non-financial reporting.



[zln.do/en-CR-Contact](https://www.zalando.com/en/CR-Contact)

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Further information
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4) <https://www.globalreporting.org/Pages/default.aspx>

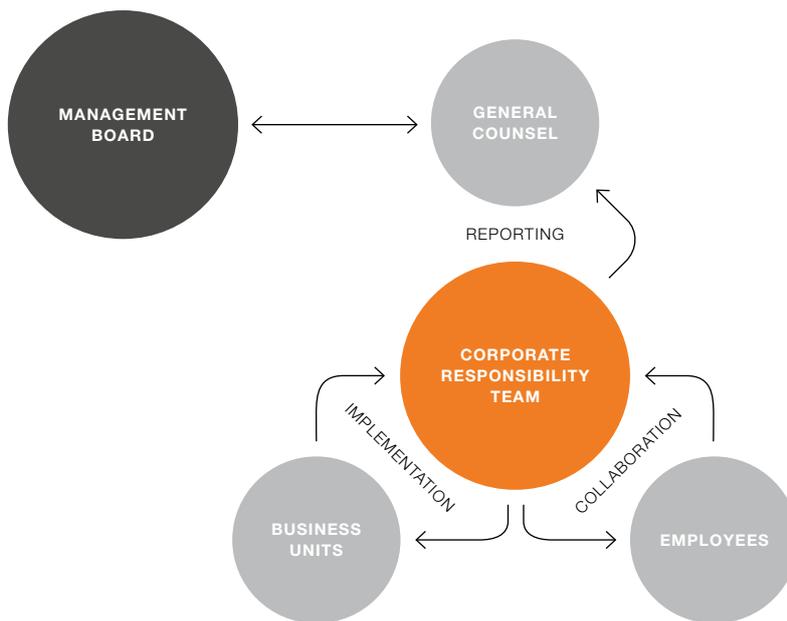
SUSTAINABILITY MANAGEMENT

Strategic responsibility for CR within Zalando lies with the Management Board, supported by the General Counsel. The CR team reports to the General Counsel and closely collaborates with decentralized counterparts throughout Zalando to implement sustainability-related initiatives.

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HOW WE ORGANIZE CR

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The CR team pursues and measures the implementation of the sustainability strategy and identifies any need for adaptation and improvement, both across the entire company and within individual business units. At the same time, all employees can proactively suggest and implement actions that improve the sustainability performance of Zalando. This decentralized structure empowers our employees to incorporate CR into their daily work.

CR STRATEGY

As a start-up, our most important target was to prove our business case. Having achieved this, we started working strategically on turning our business into a more sustainable one. We are sure that our transformation towards a more sustainable business will contribute to the future success of Zalando. As a young company, we want to get the basics right and are excited about redefining our role beyond what is expected of us. To achieve this, we invest 1% of our EBIT in social engagement in communities around us and in innovative approaches that help transform our industry.

MATERIALITY ANALYSIS

Where should we start if we want to reimagine fashion for the good of all and build a more sustainable business? Our first materiality analysis performed in 2014 and 2015 was aimed at identifying and prioritizing the areas in which we potentially have the biggest positive and negative impact. At the same time, we wanted to find opportunities and challenges that could influence our business model and current strategy.

The process included a media analysis and a survey among 5,000 customers and 1,200 employees. As a customer-centric company, we were eager to hear what CR activities our customers expect us to work and report on. In addition, our employees could choose which topics they are passionate about and where they want their employer to become active. Furthermore, we conducted internal workshops across all hierarchies and functions that aimed at finding sustainability topics that are or will be crucial for our business model.

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The input received from these key stakeholder groups became the foundation of our CR strategy, called the do.STATEGY. It includes a list of 16 material topics in five different focus areas: Employees (do.GROW), supply chain and products (do.KNOW), environment (do.PROTECT), society (do.CONNECT), and ethics and compliance (do.RESPECT).

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WHAT WE FOCUS ON

→ 03

do.GROW	do.KNOW	do.PROTECT	do.CONNECT	do.RESPECT
 DIVERSITY	 HUMAN RIGHTS	 CLIMATE PROTECTION	 COMMUNITY ENGAGEMENT	 DATA PROTECTION
 EMPLOYEE DEVELOPMENT	 ANIMAL WELFARE	 ECOLOGICAL LOGISTICS		
 REMUNERATION	 PRODUCT SAFETY	 ENERGY / RESOURCE EFFICIENCY		
 WORKING CONDITIONS	 SUSTAINABLE PRODUCTS	 WASTE AND RECYCLING		
 OHS	 PRODUCT TRANSPARENCY			

THE do.STRATEGY

The name of the strategy implies our philosophy: We have an action bias. The do. is in our DNA. And this is how we approach sustainability too. We want to advance our corporate responsibility efforts by doing more and talking less. The starting point of our strategy is the company's purpose. We see it as a promise to our customers and partners, but also as a commitment to all other stakeholders we are connected with. Striving towards this purpose, we want to leverage the commitment of our employees by empowering them to do their bit for a better fashion industry and a better society in general. The five focus areas defined by the materiality analysis are the foundation of the strategy.

In the first phase, we wanted to get the basics right and focused on the homework we still had to do. This led to a CR roadmap consisting of more than 200 opportunities and challenges across all 16 material topics with different aspiration levels. We are proud of what we have achieved so far and at the same time are excited and humble about the challenges ahead.

OUR CR STRATEGY

→ 04



Experience Zalando
zln.do/en-do



Zalando strategy



We are not yet done with our homework and will continue to redefine and raise the standards for our own sustainability performance. However, we think that we are ready for the next step. Over the coming years, we want to extend and intensify our strategic collaboration with those that bring complementary talents and assets to the table to work on our goal of making fashion e-commerce more sustainable.

The challenges that our industry is facing are diverse and complex. With our business model and platform strategy, we see countless opportunities for us to change the industry. We want to leverage the potential of our platform and our core capabilities in fashion, technology, and operations.

STAKEHOLDER ENGAGEMENT

Fashion and e-commerce are by nature fast-changing environments and this is where we feel at home. One of our major success factors is that we carefully observe what is happening around us. This includes not only building close ties with our customers, but also nurturing strong relationships with key stakeholders.

Our approach to stakeholder engagement is as flexible as our business. Building a start-up requires fast iterations with those stakeholders that are most relevant at the corresponding stage. As this approach is still part of our culture and has proven successful, we stay clear of building formal processes, structures or committees for stakeholder engagement.

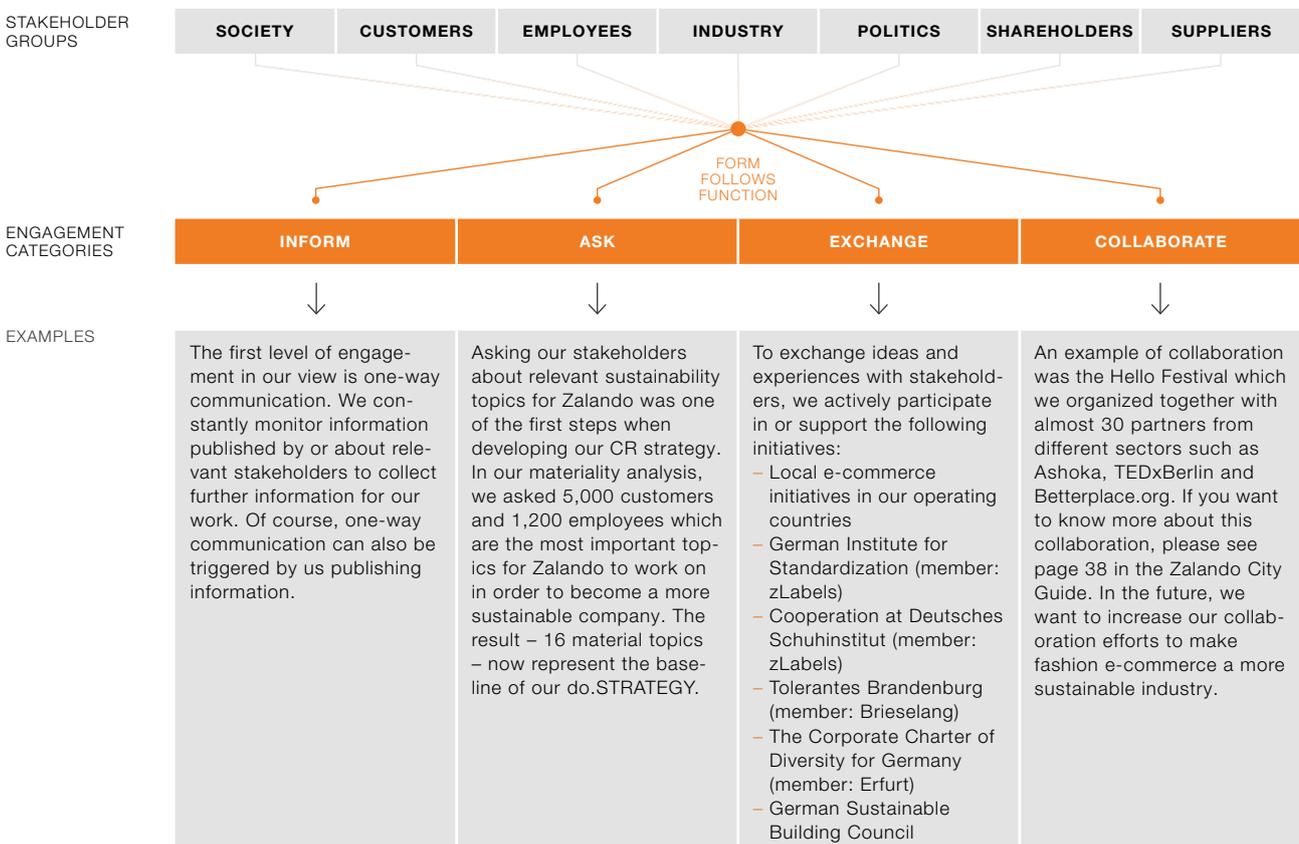
While we will push some topics more proactively, we are in general always open for discussion with everyone who wants to engage with us or learn more about a specific approach at Zalando. One example for this is that we often meet journalists or politicians at our fulfillment centers if they desire information on our plans for the specific location or for the entire company.

We engage with stakeholders according to their expertise, scale, influence, and relevance for Zalando in order to have the most impactful exchange at a certain stage. The intensity of interaction varies according to the goal of the engagement and can be roughly divided into four categories:

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FLEXIBLE STAKEHOLDER ENGAGEMENT

→ 05



OUTLOOK 2017

- In 2017, we will build on our experience and further develop sub-strategies and targets to take our CR performance to the next level.
- In order to reimagine fashion for the good of all we want to find bold and innovative partners this year.
- We believe in the wisdom of the crowd. Therefore we invite you to give us feedback regarding our approach or to even team up with us and advance our industry towards more sustainability.



Zalando strategy

01.4.2 do.GROW

- Eight years ago, Robert and David started realizing their bold vision to create a European success story in fashion e-commerce and we now take this vision to the next level with almost 12,000 people from 119 countries.
- Our platform strategy can only be successful if we trust and empower our employees.
- To create a flexible and innovative work environment, we ignite our inclusive culture, encourage collaboration, and enable employees to shape our success by acting like entrepreneurs.



do.GROW

ZALANDO IS GROWING

Zalando's success story would have never been possible without the passionate and creative people who work here. We are proud to preserve the open and dynamic start-up culture even though the company has become a huge and important employer with almost 12,000 employees in 2016 (+20% from 2015). In light of the plans set for 2017, a further increase in headcount can be expected. To consistently follow our platform strategy, we significantly reinforced our workforce in Technology.

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EMPLOYEES BY EMPLOYMENT CONTRACT AND EMPLOYMENT TYPE

→ 05

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	2016	2015	2014
Total	11,998	9,987	7,588
Part-time	7%	6%	5%
Full-time	93%	94%	95%
Temporary	33%	44%	52%
Permanent	67%	56%	48%

01.4 CORPORATE RESPONSIBILITY

EMPLOYEES BY GENDER AND REGION*

→ 06

G4-10

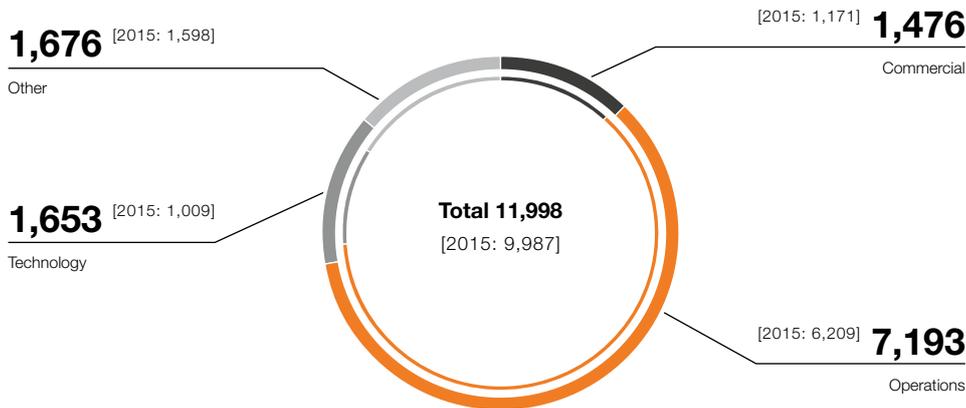
	Berlin	Brieselang	Erfurt	Mönchengladbach	Lahr	Nordics/Ireland**	Other
Total	5,413	1,248	2,608	2,048	186	146	348
Female	54%	42%	44%	37%	43%	16%	37%
Male	46%	58%	56%	63%	57%	84%	63%

*) Without SAS

**) Includes Copenhagen, Helsinki, Dublin, Stockholm

EMPLOYEES BY CLASSIFICATION

→ 06



In 2016, 4,621 new employees were hired. 60 of them are re-hires which means that they have worked for Zalando before. Of the new hires, 44% were women and 56% were men. The turnover rate was 25% (2015: 32%). Here again the split between women and men is 44% to 56%. 70% of the new hires were below our average age of 36 years. The average age is even lower in the corporate functions and tech hubs in Berlin, Dortmund, Helsinki and Dublin (32 years in 2016).

G4-LA1

OUR CULTURE – OPEN AND HONEST

Motivated employees are a key driver for our future success. We want to provide attractive opportunities for our current employees and appeal to external applicants. Our fast-moving company and the corresponding work environment can be challenging for some employees. This increases our motivation to invest in our culture to create a work atmosphere in which all employees enjoy their job, think and act like entrepreneurs, and use their ideas and motivation to contribute to the shared goals and purpose of the company. Appreciating all employees and their diverse and creative ideas is at the core of our corporate culture.

We know that keeping up with these high aspirations at all times can be challenging. To track our current performance in this regard, we use our online pulse check called zBeat. The results are summarized and published on our intranet so that leaders and teams can discuss their business unit's results. In addition, in order to enable everyone to share opinions and level of satisfaction we conduct an offline survey. The average participation rate is around the 50% level.

An important prerequisite to achieve our goal is an open and honest atmosphere in which everyone feels encouraged to speak up independently of company tenure, age or position. Therefore, we invite employees to express ideas and provide constructive feedback. One means to enable an open and productive exchange is our interactive intranet called zLive, which serves as a real-time source of knowledge for all employees, and at the same time, as a platform for employees to ask questions, discuss, and share content. Moreover, our Management Board presents current projects and reflects on performance in biweekly zTalks that are broadcast and can be seen in all our locations or later accessed online in our intranet. The same format is used for teams to share their latest projects or ideas with all Zalandos. No matter who is presenting, employees are encouraged to ask all questions and express their opinion. In our opinion, such a speak-up culture is necessary for a successful company.

INCLUSION AND DIVERSITY

One crucial aspect of Zalando's culture is the diversity among our employees and the level of inclusion we have established. In our opinion, building an inclusive culture is the most effective way to increase and benefit from diversity. Simultaneously, diversity of thought is necessary to achieve excellence in business innovation.

TOWARDS AN INCLUSIVE CULTURE

At Zalando, we are dedicated to igniting our inclusive culture. We are focusing our efforts on building Inclusion & Diversity (I&D) champions, raising awareness, and educating our employees on the importance of this work to our business results and the role we expect them to play. We are developing resources to enable teams to strengthen their own inclusive culture and thus better leverage their diversity. With the resources provided, teams can strengthen and develop their own I&D culture.

We are also embedding I&D into our current People processes, such as recruiting, employer branding and people development. Tracking our progress in I&D is another focus area. We utilize our employee pulse check, zBeat, to track our progress on creating an inclusive culture throughout the year. Recent results⁶ of the online survey show that:

- 79% of Zalandos feel they can be themselves at work and feel accepted.
- 85% feel they can share their ideas even if team members have different perspectives.
- 68% believe when they voice their opinion, it is considered.
- 74% agree that diversity of thought is critical to our success.

These are strong positions to build from, but we know we can do better.



DMA⁵ Diversity and
Equal Opportunity

5) Disclosures on Management Approach

6) In the survey employees can rate statements from 1 (disagree completely) to 5 (agree completely). The results mentioned above combine the share of people who replied 4 or 5.

VALUING DIVERSITY

We value all dimensions of diversity, but have decided to focus on two dimensions – gender and nationality – especially within our leadership group.

In general, we are proud of our achievements in including diversity of nationalities in recruiting. Our employees come from 119 countries and around 35% of our employees have an international passport. Here we can see every day what amazing and surprising things can happen when individuals from all over the world with different cultural backgrounds are given the freedom to create something entirely new. To support this welcoming culture, we provide support e.g. with registration processes, translation of important documents (e.g. health and safety training), and in mentoring programs. Further, we conduct ongoing training to increase awareness of the importance of I&D to our business success.

In our fulfillment centers, multiculturalism is part of the everyday routine. Each fulfillment center engages in I&D topics e.g. by providing training on leveraging multiculturalism and by supporting activities in their communities. Erfurt, for example, signed the “Charta der Vielfalt” “Diversity Charter”, Brieselang is a member of “Tolerantes Brandenburg” and Mönchengladbach organizes special hiring days for refugees.

G4-15
G4-16

However, the diversity of our multi-national workforce is currently not sufficiently reflected in our leadership team. This is all the more reason to focus our efforts on increasing this dimension of diversity among leadership positions due to its significant impact on the company and the people who work here.

That same pattern can be found regarding gender diversity. 47% of our employees are female. Yet, the percentage of female leaders is 33%. Here again, we are dedicated to focusing our efforts on increasing this diversity dimension among leadership positions. Therefore, we set ourselves the target of increasing female representation to 15% in the first level below the Management Board and to 30% in the second level below the management board by June 30, 2017.

EMPLOYEES BY GENDER AND INTERNATIONAL BACKGROUND

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G4-LA12

	2016	2015	2014
Management Board (MB)			
Female	0%	0%	0%
Male	100%	100%	100%
International	0%	0%	0%
1st level below MB			
Female	11%	0%	0%
Male	89%	100%	100%
International	11%	0%	0%
2nd level below MB			
Female	21%	23%	26%
Male	79%	77%	74%
International	29%	15%	17%
Management			
Female	33%	34%	32%
Male	67%	66%	68%
International	29%	19%	13%
Total workforce			
Female	47%	47%	48%
Male	53%	53%	52%
International	35%	30%	21%

Next to our inclusive culture, leadership development will be an important measure to increase diversity within higher positions in the company over the next years. The People Development team is working on programs to promote and enable inclusive leadership and overcome unconscious bias when developing and evaluating the performance of team members. Even though this organic increase of diversity in leadership positions will take more time than targeted recruiting of external managers, we think it is the most effective path for us.

FAMILY ORIENTATION

One of the diversity dimensions that we want to emphasize more strongly is parental status. Due to our employees' average age, family friendliness is currently a topic that is becoming ever more important. To be an attractive employer for parents, we offer, high flexibility regarding working hours and location and childcare options. In logistics, employees can sign up for a special mum-dad-shift.

An increasing number of our employees are taking parental leave and we see a continuous need for measures that support parents. Therefore, we will further extend our offerings in this regard.

EMPLOYEES ON PARENTAL LEAVE

→ 08

G4-LA3

	2016	2015	2014
Total	363	247	161
Women	58%	58%	63%
Men	42%	42%	37%

JUST IN CASE

Our Code of Ethics and other policies supporting the implementation of the German General Act on Equal Treatment help establish the protection needed for employees to be treated with fairness and respect. While we strive for a strong and open culture that would preclude the need for such policies, we have implemented mechanisms to protect our employees. If Zalando feels discriminated against for any reason, they can seek help at:

- our Compliance department (Ask & Tell process), which can also be done anonymously
- their contact person in P & O, our HR department
- social workers in the fulfillment centers
- work councils or informal employee participation groups like the ZEP (Zalando Employee Participation)

All cases are taken seriously and handled professionally.

PEOPLE DEVELOPMENT

While Zalando is growing, we want our employees to grow personally and professionally with us. Our philosophy is that development should not be limited to current positions within Zalando. We want to prepare our employees for the jobs of the future.

LEARNING COMMUNITIES PROVIDE MODERN AND TARGETED DEVELOPMENT OPPORTUNITIES

Our unique Zalando formula has a secret recipe – a myriad of talents with great passion, entrepreneurial spirit and expertise in their respective function. To help these talents to grow, we invest in an unconventional development approach: Experts in distinct learning communities design concepts targeted at the knowledge, learning, and working environment suitable for their corresponding functions. For example, our tech academy offers specific training options for coders either to intensify their expertise in one coding language or broaden their knowledge beyond their current field of expertise. Having totally different needs, our learning community in operations focuses on designing attractive development paths for employees in our fulfillment centers. Each of these communities is encouraged to implement methods that go beyond traditional classroom training and include everyday learning experience through different technologies and enablers. Employees are empowered to choose from the variety of options to design their own development paths. This approach helps us to attract and develop those talents that want to shape our agile and fast growing business with us.


zln.do/en-ethics

DMA

 – Diversity and Equal
Opportunity
– Non-discrimination
G4-HR3


DMA Training and Education

The learning communities receive support from the central people development function. This team designs the overall strategy and company-wide programs like the establishment of impact tracks that go beyond traditional general management career paths and empower our employees to provide greater business impact through business development and expertise.

As part of our lifelong learning philosophy at Zalando, we want to prepare our employees for an increasingly digital future. Therefore, we started a pilot called "Coding as a foreign language". The goal was to give non-tech Zalandos insights into the world of software programming as well as a better understanding on how our Tech teams work. The response of our employees was overwhelming and we have already planned a second iteration for 2017.

G4-LA10

STRENGTHEN OUR FEEDBACK CULTURE

Feedback and a speak-up culture have been very important building blocks for Zalando from the beginning on. Building on these, we used the year 2016 to further strengthen this culture in preparation for the roll-out of a multi-sourced feedback process. We think that reducing feedback to the classical leader-employee conversations does not fit our culture as well as our fast and agile business environment. In order to be more valuable, feedback should also come from the people an employee interacts with in daily business. We believe that feedback and self-reflection will help our employees grow and shape their individual development path within Zalando and beyond.

G4-LA11

REMUNERATION

Fair remuneration is an important part of good working conditions. Therefore, we constantly evaluate and adapt our remuneration package to be attractive, motivating and in line with our equal pay principle.

DMA Equal Remuneration
for Women and Men

HOW WE REWARD

Frankly, it is not our target to pay the highest cash salary in the market, but to attract and motivate employees with the combination of autonomy and fun at work, a fair compensation package and the culture of an inclusive and agile international company that revolutionizes the fashion industry. The compensation of each role at Zalando is benchmarked against the market and adjusted according to individual skills, experiences and competencies of the employees.

Our comprehensive rewards offer is composed of base compensation, top performance awards, and attractive benefits. For all leaders, base compensation consists of two elements: Monthly cash salaries as well as an annual equity grant that entitles beneficiaries to receive long-term oriented Zalando stock options. Additionally, we offer a wide range of benefits, including employee discounts in our shop, our employee share plans, free fruit and drinks, contributions to public transport or health programs, as well as team sports and support for families, e.g. for daycare. Benefits are granted to all permanent employees and local offers like health programs can be used by everyone working in the respective location.

G4-LA2

The base compensation of our employees is reviewed annually after the completion of the performance review and adapted according to market development and individual performance. We ensure objectivity and internal fairness through clear criteria and defined processes for compensation decisions.

EQUAL TREATMENT PRINCIPLE IN OUR LOGISTICS

Temporary workers contribute daily to our success, especially in our logistics. We consider their fair treatment as an important part of our good working conditions. We have developed the equal pay principle into an equal treatment principle. Therefore, our temporary workers receive the same hourly compensation as our permanent workers and are treated in exactly the same way.

WORKING CONDITIONS

Part of our efforts to grow as an attractive employer is the continuous improvement of working conditions. Good working conditions go beyond compliance with labor law and other applicable regulations and have to be ensured for all locations and functions. Throughout the CR chapter, we describe several important topics that form part of our understanding of good working conditions, such as appreciation and flexibility, development opportunities, and health and safety measures. These efforts benefit our employees, but at the same time they become a necessity for us as we are constantly growing and competing for the best talents.



OUR CO-DETERMINATION CONCEPT

For Zalando, a crucial part of good working conditions is the freedom to express opinions, give feedback and thus shape the work environment. We embrace the freedom of association and ensure that this right is respected at all times in all parts of the company. In the last report in 2015, we already presented our co-determination concepts within the different legal entities. The latest body that was introduced in the last report is our ZEP (Zalando Employee Participation), which started as a pilot project and is now an important driver for feedback and exchange among Zalandos in Berlin with the Management Board.

DMA Freedom of Association
and Collective Bargaining

SPECIAL FOCUS ON LOGISTICS

Around 60% of Zalandos work in our operations. We highly appreciate the amazing contribution to Zalando's success that our efficient and motivated operations is providing. Of course, we want to provide good working conditions for all Zalandos, but we especially focus on protecting and enabling those who are working in the demanding jobs within our operations.

Since we started our fulfillment activities, we have been aiming to continually improve and optimize our working conditions. These improvements and optimizations are attested to in our regular reviews by an external certification authority. In 2012, Zalando defined the set of social standards we expect our own fulfillment centers and those of our partners to comply with. For our own fulfillment centers, their implementation is checked once a year through internal reviews and twice a year through unannounced audits by an independent external institution, DEKRA. In the last DEKRA report for our three fulfillment centers (Brieselang June 21, 2016, Erfurt June 23, 2016 and Mönchengladbach April 14, 2016), we reached an average score of 1.3 (from 1 = very good to 4 = not acceptable). Our fulfillment center in Lahr started in August 2016 and will have its first audit in 2017. For fulfillment centers run by our partners, we assigned an external independent auditor to check the implementation of our social standards twice a year.

G4-LA14



Experience Zalando
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Our ambition is to further improve these standards in the future. In order to embrace the needs of our employees, we run surveys on a regular basis. The last survey in our fulfillment centers revealed that 69% of our employees would recommend Zalando as an employer to their friends and family and 76% indicated that they are in general happy to work at Zalando. 77% of our

employees indicated that they have fun at work and 82% perceived the way they are treated by their leaders as fair and respectful.⁷ While these results show us that we are on the right track, we are dedicated to continuously improving our performance in the future.

Furthermore, employees in the fulfillment centers can reach out to our social workers to receive counseling even on private matters. To support employees balance work and family life, we introduced a family-friendly shift system for parents. The idea behind it was born at a round table, which is one of the many ways we offer our employees to regularly participate in forming the culture of our company. Other ways are the employee surveys, weekly office hours with the management of the fulfillment center, and participation in or contacting the respective work councils. Through our employee magazine, we keep our employees informed about all the activities and developments.

HEALTH AND SAFETY OF OUR EMPLOYEES

The health and safety of our employees is of the utmost importance to us. We follow the “vision zero” with the goal to entirely preventing accidents and protecting our employees’ health. Within our prevention strategy, we defined concrete goals to limit the risk of accidents and occupational illnesses. We continually review and improve the conditions in all our locations. Our health management not only focuses on the physical, but also on the psychological health of our employees.



DMA Occupational
Health and Safety

OFFERING A SAFE AND HEALTHY WORK ENVIRONMENT

As the health and safety of our employees is a crucial topic for us, we go beyond legal requirements and set clear and reliable structures in our administration and our operations to ensure that we have the best solutions for every specific work situation. All Zalando companies are inspected by an Occupational Health and Safety Committee – depending on the risk identified for the respective workplaces once per month or every six months. In the inspections, appropriate measures are identified and their effect checked in subsequent inspections.

HEALTH AND SAFETY INDICATORS → 09

	2016	2015
Absentee Rate Zalando Operations	11.2%	11.3%
Absentee Rate ZALANDO SE	5.3%	5.1%
Occupational disease rate	0	0
Work-related fatalities	0	0

G4-LA6

IN OUR OFFICES

In our offices, we implemented several measures to prevent accidents in the working place, e.g. online tutorials and training for fire safety assistants and first aiders, by providing protective equipment, and giving information on digital communication platforms. Furthermore, we cooperate with experts and company doctors to offer our employees health-supporting activities on a regular and voluntary basis, e.g. preventive occupational medical care, vaccinations, health days, ergonomics consultations in the workplace, team sports activities and events.

7) In the survey employees can rate statements from 1 (disagree completely) to 5 (agree completely). The results mentioned above combine the share of people who replied 4 or 5.

IN OUR LOGISTICS

We cooperate closely with the work councils as all health and safety-related topics are decided in agreement with the employee representatives. There are committees on occupational health and safety, following up on all topics that focus on the needs of our employees. Examples of improvement measures regarding ergonomic workplaces are height-adjustable tables in our fulfillment centers and shift plans that avoid monotonous motion sequences. Further, employees can benefit from free vaccinations, weekly sport activities, and our annual company relay. In all this, we work closely together with our in-house doctors and jointly agree on areas of improvement.

OUTLOOK 2017

- In 2017, we want to attract more talents that are eager to shape our success story with their creative and bold ideas.
- To provide further development and collaboration opportunities for our employees, we will ignite a multi-source feedback culture.
- By leveraging our I&D culture, we will strategically develop talents to increase diversity within higher management.



Zalando strategy

01.4.3 do.KNOW

- As a young company, we want to know more about our supply chain and our possibilities to improve our impact within each stage.
- We are aware of our responsibility to the people that work in our supply chain and try to ensure in various ways that our goods are ethically sourced.
- In our shop, we aim to increase the number of sustainable articles and provide more relevant information so that our customers can make informed buying decisions.



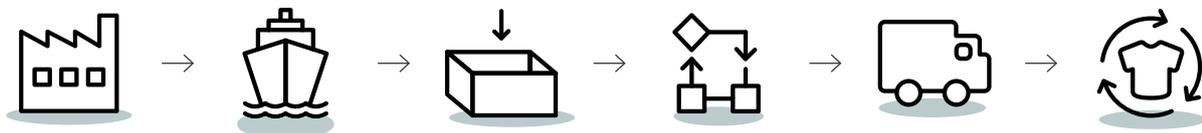
do.KNOW

OUR SUPPLY CHAIN

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OUR SUPPLY CHAIN

→ 07



RAW MATERIALS & MANUFACTURING	TRANSPORTATION	FULFILLMENT	CORPORATE FUNCTIONS	DISTRIBUTION	USE PHASE & DISPOSAL
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Where do the items that we sell on our platform come from? The supply chain of an e-retailer can be roughly divided into six stages. We receive final products from our third-party brands and private labels, which are then transported and stored in our logistic centers network. Products are delivered to the final customer by distribution partners. All operating activities that complement our logistics network are summarized as “corporate functions”, e.g. technology, marketing, and customer care.

Managing a global supply chain poses many challenges, especially regarding human rights, labor conditions, and the environment. We are constantly evaluating the impact of our business at each stage in the value chain in order to find the right solution for different challenges.

We approach the supply chain management for third-party brands and our private labels differently. For our private labels, our level of influence is evidently higher so we engage directly with our suppliers in the sourcing countries and will share more details about our approach in the following section Sourcing for our Private Labels.

When it comes to our third-party brands, we also recognize the responsibility we share to improve the conditions in the value chain. We define minimum standards for all our partners on topics such as product safety, animal welfare, and labor practices in respective codes and policies. Beyond this we collaborate with some of them more closely and it is our aspiration to further strengthen those relationships to mutually learn from experiences and to jointly work on solutions for more sustainable fashion e-commerce in the future.

SOURCING FOR OUR PRIVATE LABELS

10–20% of Zalando’s revenues are generated by our private labels, designed and sourced by our subsidiary zLabels. zLabels has 17 brands covering apparel and footwear for men, women, and children and goods are produced in 27 countries across the world. We do not own or operate any of the production facilities. Our main sourcing countries are China (48%), Turkey (10%), India (9%), Bangladesh (7%), Portugal (5%), Romania (4%), Spain (3%), Vietnam (3%), Italy (2%), and Cambodia (1%). We work with agents, suppliers, and factories directly to ensure we positively impact working conditions.

It is our goal to develop strong and lasting relationships with our suppliers. For this purpose, we developed a supplier rating system that includes criteria such as quality, reliability, and compliance with our standards. We use this rating system to decide which suppliers receive more orders, dedicated training, and insights into order planning. Further, we consolidate the suppliers we work with. In 2015, we had 332 suppliers with 608 factories; in 2016 we had 278 suppliers (–16%) with 464 factories (–24%).

We are aware of our responsibility to the people that work in our supply chain and are committed to ensuring that our goods are ethically sourced. At the same time, we want to provide convenient and inspiring shopping experiences to our customers. The speed with which we deliver products and our global sourcing model makes it challenging to meet the needs of the business while maintaining our continued commitment to workers and the environment. We are also conscious of the complex and systemic issues within our supply chain and are striving to team up with the right partners to find innovative solutions.



G4-6
G4-12



zln.do/zLabels

OUR AUDIT PROGRAM

As part of our onboarding process, all new suppliers and their factories must sign our Code of Conduct. It is based on the principles of the Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO).

In addition, all factories must provide a recent audit done by an accredited, external third-party. Based on the findings of the audit a rating is given to the factory, a Corrective Action Plan (CAP) is developed, and we ask suppliers and their factories to demonstrate improvement in all identified areas. For a new setup, a supplier and the corresponding factory have to meet all ethical requirements before orders can be placed. If critical findings are observed, we do not begin the relationship without evidence that the existing findings have been remediated.

If a critical non-compliance is found at an existing factory, we require evidence of improvement to continue our business relationship. We work with nominated third-party consultants who provide external support on resolving non-compliances at supplier factories.

This year, we developed a new database that connects various parts of our business to ethical factory information. This database allows suppliers to manage their factories, audits and CAPs. It also helps us to increase the transparency of our processes with suppliers and within other parts of our business. Now we can easily track each factory's progress and provide reminders to suppliers and their factories on uploading evidence and CAP closures.

We recently reviewed our audit program and plan to re-launch it in 2017, reducing the number of nominated third-party audit partners and refreshing our factory grading process.

TRAINING OUR EMPLOYEES

All zLabels employees, including those involved in supply chain management and sourcing of products, must attend mandatory training on our Ethical Trading program. This training includes understanding our Code, prevention of forced labor and human trafficking, as well as other ethical standards that must be maintained at factories within our supply chain.

CONTINUOUS IMPROVEMENT

We are committed to improving working conditions and realize that to achieve this target, we need to go beyond auditing and support our suppliers' factories on the ground with the help of independent local partners. Before engaging at factory level, we spent time this year working with our suppliers on the importance of ethical trade, our requirements, and how we hope to see their factories improve. At the zLabels 2016 Vendor Summit in China, Thailand, and Germany, we explained our ethical trade requirements to suppliers and undertook interactive workshops on the importance and benefits of building strong management systems in factories.

We also spent the last year building and developing our Factory Improvement Program. To better understand how to drive continuous improvements in our suppliers' factories, we rolled out pilot improvement programs in Bangladesh, China, and Romania. We also want to work with the right partners to ensure we have a robust process in place and have spent this year identifying and evaluating our strategic partners who will support zLabels to develop and implement the program in 2017.

DMA
 – Supplier Assessment for
 Labor Practices
 – Freedom of Association
 and Collective Bargaining
 – Child Labor
 – Forced or Compulsory
 Labor
 – Supplier Human Rights
 Assessments
 G4-15
 G4-LA14
 G4-HR4
 G4-HR5
 G4-HR6
 G4-HR10

Next year, we will grow our program with the support of new teams in our sourcing countries along with our external partners.

We also have developed a new country risk categorization based on international indicators as well as audit findings to identify high and medium risk countries. For factories in high risk countries, we have identified programs or additional requirements to ensure the protection of workers and the environment. With our suppliers and their production facilities spread across the world, this allows us to focus our work on areas where the greatest improvements can be made. While we have been focused on developing our program this year, we know we still have a long way to go implementing and improving it.

ANIMAL WELFARE

For all the products sold on our platform, we want to ensure the considerate and ethical treatment of animals and the protection and conservation of biodiversity. Therefore, we issued a company-wide policy on Ethical Sourcing Standards in 2014. The policy states our expectations towards our suppliers regarding the proper handling of animals as well as the protection of biodiversity.

Our sourcing standards are based on the Directive 98/58/EC concerning the protection of animals kept for farming purposes, the World Organization for Animal Health (OIE) and the lists of endangered species issued by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), and by the International Union for Conservation of Nature (IUCN).

As a matter of principle, Zalando does not buy any products that originate from endangered species and condemns any form of animal cruelty. We only allow products from farming animals that have been bred for meat production. Since 2012, Zalando has discontinued any items containing fur and in February 2016, we officially joined the Fur Free Retailer Program. The Fur Free Retailer Program is an international effort to give consumers accurate information about a retailer's fur policy. The program recognizes and supports retailers who have committed, in writing, to a no-fur policy.

The CR team regularly trains our buyers on our animal welfare standards to increase awareness and ensure compliance to the policy.

HIGH QUALITY OF PRODUCTS

Zalando has made a commitment to high quality and product safety standards in the interest of customers, employees and factory workers. As part of this philosophy, Zalando works based on a Restricted Substances List that summarizes all applicable legal requirements and our additional standards which go beyond those required by legislation. We are dedicated to implementing these standards for all our private labels and third-party brands.

PRODUCT SAFETY AT ZLABELS

For our private labels, we check products at very early stages so that items that reach the Zalando shop comply with our standards. With this effective system we were able to entirely prevent recalls in the area of private labels in 2016.



DMA Marketing
Communications

G4-15

G4-16
G4-PR6



DMA Customer
Health & Safety

This result was made possible by the successful introduction of the comprehensive quality management system (QMS) that we already presented in our annual report 2015. This QMS was developed together with TÜV Rheinland and represents a holistic supplier development approach, which assesses suppliers in dimensions such as safe use of chemicals, quality, and reliability indicators. As we are updating this quality management system continuously, we will audit our QMS bi-annually.

At zLabels, we continuously assess and develop our suppliers. We strive to increase transparency among tier 1 suppliers and beyond. An essential part of the supplier development is the chemical analysis provided by independent international testing institutes. The test results show an improvement in our failure rate which was reduced by 40% from 2015 to 2016 for all tested products. We will strive for further reduction in failure rates in 2017.

G4-PR2

The available data is reviewed on a monthly basis during the zLabels quality circle, which decides on further development of each supplier, possible delistings, and corrective actions or adjustments.

PRODUCT SAFETY FOR THIRD-PARTY BRANDS

Our suppliers of third-party brands already maintain high quality standards along their supply chains themselves. Nevertheless, we implemented processes to ensure that the quality of their products complies with our standards. This led to a recall rate as low as 0.01% of items with an assortment range of around 200,000 units in 2016. While we had 26 recalls in 2014, we had 39 in 2015 and 15 in 2016.

G4-PR2

The basis for product safety control mechanisms for third-party brands is divided into two approaches – proactive and reactive.

The proactive work is based on a scorecard approach that enables Zalando to examine products from suppliers that show a higher risk of safety concerns. We collaborate with the higher risk partners on improving their processes and standards to ensure products' full compliance. In 2016, the scorecard was further rolled out across our supplier portfolio to deepen our understanding of the entire industry's standards for product safety. With targeted sampling and evaluation, we can detect suppliers that follow best practices in the industry and share this knowledge within our supplier network.

The reaction-driven testing stems from various information channels, such as Customer Care, weekly RAPEX⁸, and media reports. If the information from these channels leads to doubts about a product's safety, Zalando stops selling this product as a precaution and recalls sold products from our customers immediately, if necessary. We are currently working on improving our analysis of customer reviews to be able to react to their concerns faster.

In conclusion, we are continuously striving to further improve the safety of all the products sold at Zalando.

8) Rapid Alert System of the European Commission

SUSTAINABLE PRODUCTS AND PRODUCT TRANSPARENCY

At Zalando, we are proud that our products reach almost 20 million active customers. We see this as a major asset not only for our business model, but also for our influence on sustainable consumption. Transparency will be key for changing the game for sustainable fashion and technology will drive this development. We trust our customers to make conscious and qualified decisions so we want to use technology and our fashion expertise to provide them with all relevant information.

The challenge is complex and we know that we cannot do the job alone: We will team up with those who bring complementary assets to the table. We regularly track the development of the sustainable fashion market and learn from our customers to shape and prioritize our activities according to their needs. We also started learning from brands about their wishes regarding the disclosure of sustainability-related information since we want to become their first choice for selling sustainable fashion online.

It has always been possible to shop for sustainable products at Zalando, but in the past those products were rather difficult to identify. In order to help our customers identify sustainable products we introduced a new flag this year, highlighting relevant items. Newly developed features in our shop allow us to add sustainability-related information to our items, such as certificates, license numbers or information about testing institutes. These features were introduced in the kids category first as we know that parents in particular care about sustainable products. As a part of our pilot activities, we grew our sustainable items portfolio in the kids' category to over 1,100 from 36 different brands. In 2017, we plan to transfer those changes to other categories.

At the moment, we only include articles in our sustainable assortment that have at least one certificate, such as GOTS, Fairtrade or others. In the future, we want to go beyond this and start adding other relevant information regarding sustainability aspects of items and brands in order to inform and educate our customers.

We also successfully launched the first range of sustainable products across five zLabels' brands. Rather than working on a pilot within one brand, we chose a portfolio strategy, working across brands and product categories to ensure our customers have the option to make more environmentally-friendly choices. Products were created using sustainable raw materials and production processes adhering to the rigorous criteria of the Global Organic Textile Standard (GOTS) and the Global Recycled Standard (GRS). The materials used included organic cotton and recycled polyester. The first products were launched in January 2017 for the spring/summer collection 2017.

We will evaluate the success of this sustainable product range in 2017 and continue to launch products for fall/winter 2017.

OUTLOOK 2017

- To further improve our impact on people along the zLabels value chain, we will roll out the Factory Improvement Program in 2017.
- Further, we want to extend product safety testing processes and the responsible use of chemicals beyond tier one.
- In 2017, we will leverage our expertise in technology and fashion to increase the sustainability-related information on products together with the offer of sustainable articles in our shop.



DMA Products and Services

DMA Product and Service Labelling

G4-PR3

G4-EN27



Zalando strategy

01.4.4 do.PROTECT

- As a fast growing e-commerce company, we acknowledge the effect that our company and our industry have on the environment and are dedicated to mitigate this impact.
- The focus of our environmental efforts in 2016 was on identifying the sources of direct and indirect greenhouse gas (GHG) emissions in our value chain and on implementing a system that allows us to continuously measure them.
- Reduction and recycling are our main approaches towards a sustainable use of resources.



do.PROTECT

CLIMATE IMPACT

CALCULATING OUR CO₂ EMISSIONS

Studies⁹ show that the main climate impact in the lifecycle of clothing arise from the extraction of raw materials, textile manufacturing and the consumer-use phases. In 2015, we started measuring our carbon emissions focusing on the transport, fulfillment, business (own operations), and distribution phases. When considering the entire lifecycle of our products, some of the above-mentioned phases were not included in our first corporate carbon footprint, the reason being that we decided to prioritize the areas where we believe we have the biggest influence and hence potential for reduction.

Our carbon emissions¹⁰ were calculated according to the internationally recognized guidelines in the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol), taking 2015 as the year against which all future changes in emission levels will be measured. We have chosen this year as it is the earliest relevant point in time for which reliable data for emission sources were available. For the conversion of consumption data into carbon emissions, primary as well as secondary data from lifecycle analysis databases like ecoinvent and GEMIS was used.

Scope 1 and 2 of our carbon footprint include the administrative and logistics sites we operate¹¹. Since emission sources under scope 3, such as outbound logistics are paramount in our environmental footprint, all relevant emission sources under scope 3 are considered as well, including:

- Outbound logistics (to all 15 countries where our products are sold)
- Production of our packaging
- Inbound logistics (transportation of third-party brands products covered by us, of zLabels products, and of Zalando's packaging materials)
- Employee commuting and business travel
- Office materials
- Waste generated in our operations

CO ₂ EMISSIONS	→ 10	
IN METRIC TON	2016	2015
Scope 1	3,868	3,131
Scope 2	26,048	23,118
Scope 3	154,402	120,272
Total	184,318	146,522



DMA Emissions

G4-EN15
G4-EN16
G4-EN17

9) Apparel Industry Life Cycle Carbon Mapping, June 2009. Business for Social Responsibility; Social and environmental impacts of a T-shirt: A life cycle approach, January 2017. Green-Delta GmbH.

10) Greenhouse gas (GHG) emissions are disclosed as CO₂ equivalents (CO₂e). All greenhouse gases regulated by the UN Kyoto Protocol have been accounted for: carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), sulfur hexafluoride (SF₆), hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs). For better legibility, the emissions are simply referred to as carbon emissions and reported in units of metric tons of CO₂.

11) The GHG Protocol classifies carbon emissions as direct (emissions from sources that are owned or controlled by the reporting entity) or indirect (emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity). The Protocol further categorizes these direct and indirect emissions into three broad scopes: Scope 1 refers to all direct GHG emissions, scope 2 to emissions from consumption of purchased electricity, heat or steam, and scope 3 refers to other indirect emissions, such as the extraction and production of purchased materials, employee commuting or business travel.

Our total carbon footprint in 2016 was 184,318 metric tons of CO₂ in comparison to 146,522 metric tons of CO₂ in 2015. This increase was primarily driven by the growth of our company. Additionally, the scope of data collected to determine the total footprint has increased from 2015, now including emissions from the inbound transportation of third-party brands and energy consumed in our international offices. At a parcel level, CO₂ emissions were approximately 2.8 kg of CO₂.

G4-EN18

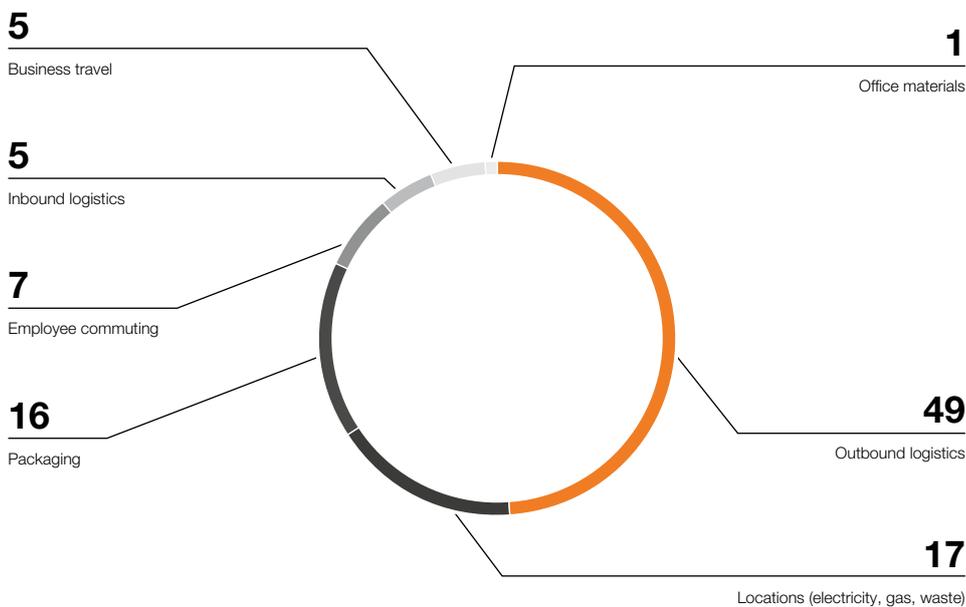
Main triggers for CO₂ emissions in the reporting year were the transportation of parcels to our customers (49%), the energy consumed in our offices and fulfillment centers (17%), and the production of the materials used for packing the products we sell (16%).

CO₂ EMISSIONS BY SOURCE (2016)

→ 08

G4-EN30

IN %



OPTIMIZING TRANSPORT

The delivery of products to our almost 20 million customers in 15 different countries is at the heart of our business model. It represents the single largest source of current emissions at Zalando.



DMA Transport

In 2016, we initiated various projects with the objective of minimizing the impact of our logistics activities. For example, we launched a pilot to extend our delivery and returns network. We increased the number of pick-up points in countries like France and Italy, which allows us to reduce the number of trips required to deliver parcels to our customers. With 'Fulfillment by Zalando' we are not only ensuring that partner articles are sent via our optimized logistics network, but we will also be able to bundle orders consisting of partner's items and other brands into one, reducing the number of total deliveries. When it comes to our returns, we aim to provide our customers with as much detailed information about our products as possible to reduce the number of returns resulting from products not matching customers' expectation. Detailed information for each item is shown in the website including photos and text, as well as product reviews from other customers. We also use other features such as product videos and 360° view.

G4-EN30



Further information in the Zalando City Guide zln.do/en-fulfillment

We acknowledge that there is still more work to be done if we want to significantly reduce our environmental impact. In the future, our aim is to work more closely with our logistics providers in order to jointly reduce the carbon footprint originating from our deliveries.

With a growing workforce, business travel and commuting emissions are becoming more and more significant. Together they make up 12% of our total CO₂ emissions.

We have implemented several measures in order to reduce travel-related environmental impacts. Our travel policy puts phone or video conferencing first to reduce unnecessary travel. For distances shorter than 400 km, we strongly recommend our employees travel by train. The policy also states that rental cars have to be chosen from the compact class, allowing us to reduce costs as well as CO₂ emissions. Our company car guidelines include the option of leasing cars with alternative drives (e.g. electric cars), thus promoting the use of sustainable mobility.

To facilitate the mobility of our employees between our Berlin offices, we provide a shuttle bus, tickets for public transport, an internal corporate car, and bike sharing. Thereby, we promote commuting between locations through eco-friendly mobility. But our efforts do not stop in Berlin. In our Erfurt location, a mobility assistant takes care of travel sharing and additional bus services, as well as other environmentally-friendly ways to go to work.

In the future, we will continue to look at ways to optimize our car sharing fleet and to raise awareness for environmentally-friendly means of transportation for business travels.

RESOURCES

OUR ENERGY CONSUMPTION

The energy consumed in our offices and fulfillment centers constitutes the second largest trigger of GHG emissions in the company. Electricity is the main energy type consumed at both administrative and logistics sites. Electricity for all our locations is sourced from a mix of 34% renewable sources and 66% fossil fuels.



DMA Energy

ENERGY CONSUMPTION	→ 11	
IN MWH	2016	2015
Electricity (total)	37,159	33,379
Electricity from renewable sources	12,634	11,349
District heating	2,761	1,758
Natural gas	16,351	13,644
Car fleet	1,072	785
Total	57,342	49,567

G4-EN3

Energy efficiency and convenience for employees are important design criteria for Zalando locations. We demand a German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen) certification for all new fulfillment centers and offices. Certified buildings conserve resources and

display lower greenhouse gas emissions. Zalando became a member of the German Sustainable Building Council in October 2016. This membership allows us to learn from and with industry experts about the sustainable and efficient construction and use of buildings.

Another step towards reducing our energy consumption was the decision to exchange the conventional lighting at our fulfillment center in Brieselang for LED lighting. As a result of this, we have made monthly average energy savings of 80 MWh. This is equivalent to the annual energy consumption of 26 households in Germany¹². In 2017, LED-lighting will also be installed in our Lahr and Mönchengladbach locations.

All fulfillment centers run by Zalando have a building management system with an integrated energy management system installed. In order to ensure a holistic approach to energy management, in 2017 a smart-meter structure will be integrated at our fulfillment centers as well as at all relevant administrative locations. Smart-meters provide accurate energy use data in real-time. Making energy consumption transparent will enable us to manage it in a more efficient manner.

INCREASING RECYCLED PACKAGING

In 2016, 26,365 tonnes of packaging materials were used to deliver the parcels to our customers. 91% of them consist of renewable materials. Increasing resource scarcity results in a growing urgency to become more efficient with the use of packaging. As an online retailer, we consistently aim to improve our performance on this important lever.

DMA Materials
G4-EN2

Zalando's approach to the use of packaging material and consumables is based on customer-centricity and ecological aspects. Central to our business model, we are continuously working to ensure that our customers have the best unpacking and return experience in the industry.

When it comes to the ecological aspect, we continuously look for possibilities to increase the share of recycled content in our parcels and to make packaging recyclable. Our boxes consist of 98% recycled material. Even the white top layer on the cardboard consists of recycled newspaper. All the printing inks used are water-based and therefore environmentally friendly.

In addition to cartons, Zalando is making greater use of shipping envelopes. These offer stable protection during transportation and also have ecological benefits. The shipping envelope is designed in a way that our employees can vary its size when closing it. In addition, ventilation holes ensure that unneeded air can escape to minimize the volume needed for the articles transportation. Thereby, we reduce not only our carbon footprint during shipping but also fulfillment costs. The share of total volume shipped in shipping envelopes has increased from an average of 12% in 2015 to 17% in 2016. A reasonable further increase in the share of shipping envelopes is planned and currently being reviewed.

Furthermore, we are looking into possibilities to reduce the amount of packaging we use. The choice of material is an important factor. Our primary approach is not the substitution of conventional materials with bio-degradable substances like corn or starch, but instead to consistently minimize the amount of material that goes into the production of each package. For example, we managed to significantly reduce the thickness of the shipping envelopes and other plastic materials in the past years.

¹²⁾ In 2014, the average of the annual electricity consumption in German households was 3,079 kilowatt per hour. Source: World Energy Council.

In 2017, we will introduce an algorithm-based recommendation for packaging at all our packing stations, which is based on the dimensional weight of our articles. This will allow us to avoid using packaging materials that are too big for the articles being packed. In our fulfillment center in Mönchengladbach, we will introduce two machines for automated packaging of single unit orders into shipping envelopes. This will significantly reduce the amount of material used as the item will be packed into a bag that perfectly fits its size.

REDUCING WASTE

The main types of waste at our offices are paper and residential waste, whereas at our fulfillment centers, outlets, and photo studios most of the waste comes from the packaging used for the delivery and returns of the products we sell. 51% of materials used to package all product categories were reclaimed in 2016.



DMA Effluents and Waste
G4-EN28

TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD

→ 12

G4-EN23

IN TONNES*

Non-hazardous waste	16,450
Waste disposal method	
Recycling	14,793
Reuse	329
Waste incineration	1,328
Hazardous waste	55
Total	16,505

*) The waste disposal method was determined with information provided by our waste disposal contractors.

We are aware that the disposal of packaging materials is a growing environmental challenge. Because of this and also for economic reasons, recycling of our packaging plays an important role at all our logistic sites: All no longer usable cartons and foil bags are collected, separated and recycled accordingly. Yet our responsibility for packaging recycling does not stop at our locations. It continues even when the parcel arrives at the customer. Therefore, information about the recyclability of our packages is included in the package itself. No matter whether a box, shipping envelope or foil bag is used, all packaging is 100% recyclable.

DMA Products and Services

We have also implemented various measures in order to reduce the amount of waste generated at our administrative offices. We have installed tap water dispensers and provide drinks only in reusable bottles. All fruit delivered to our offices comes in reusable boxes without any additional packaging. Additionally, in the second quarter of 2016, we introduced a common system for effective waste separation at all our locations.

OUTLOOK 2017

— At Zalando, insight leads to action: Our next step is to develop a climate protection strategy that allows us to define targets and concrete initiatives to reduce our carbon emissions.



Zalando strategy

- We will continue to explore opportunities to increase the use of recyclable materials and renewable resources, as well as to reduce the amount of packaging we use.

01.4.5 do.CONNECT

- Instead of reinventing the wheel, we want to do our bit to solve societal challenges by helping to scale social innovations with a proven track record.
- In 2016, we invited people with successful solutions for the integration of refugees to participate in the Hello Festival in Berlin and afterwards supported them to scale their impact in Germany.
- This year, more than 600 Zalandos started serving our local communities with great passion and enthusiasm as volunteers.



do.CONNECT

IMPACTING LOCAL COMMUNITIES

We want to be an active and integrated partner of the communities around us and believe that engaging locally around our offices and warehouses creates value for the society as well as for our company. We grant all employees up to two fully paid days off work annually and we actively encourage them to use their time and skills to support local non-profit projects they care about.



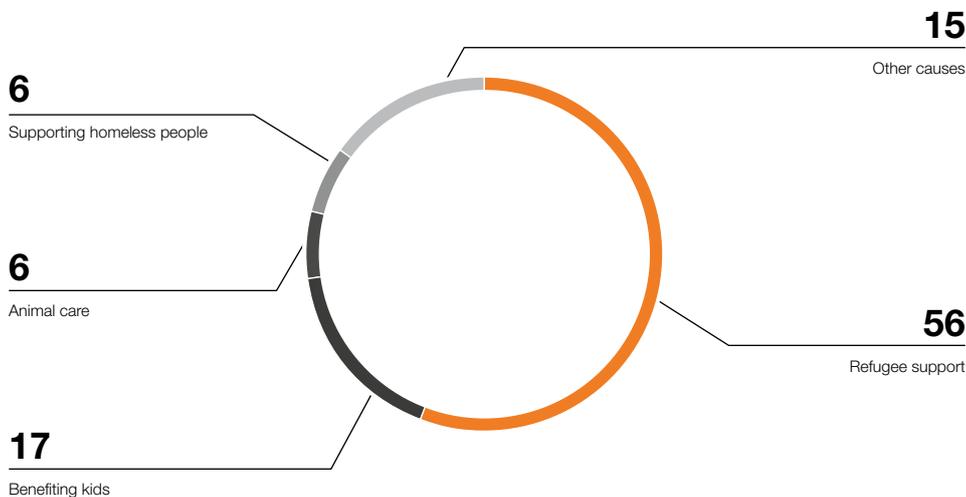
DMA Local Communities G4-SO1

For our employees, this provides an opportunity to get to know each other in new settings, get out of their comfort zone, and learn in new environments. We welcome this positive effect, but also want to be sure their volunteering brings value to the projects they engage in. That is why we teamed up with the social business Vostel, an expert in providing meaningful volunteering opportunities to help ensure quality and impact. Vostel serves as an advocate to the projects we support, provides needs assessments, and runs regular feedback loops with counterparts in the projects to safeguard the intended win-win situation.

CAUSES ZALANDOS VOLUNTEERED FOR 2016

→ 09

IN %



640 Zalandos

volunteered 4,180 hours benefiting 50 social projects

OPPORTUNITIES FOR INTEGRATION

In order to make fashion accessible, we acquired the Bread&Butter trade show in October 2015 together with a lease for the former Tempelhof airport. The show used to be part of the Berlin Fashion Week with access limited to fashion experts. We wanted to open it up by creating a fashion festival for customers. However, in 2015, Tempelhof became the home for thousands of refugees. We decided to postpone our first 'Bread&Butter by Zalando' and instead use the time and skills of the responsible teams to do our bit to help those who have to start over in Germany.

At the beginning there was a simple insight: If we want to help efficiently, we should not reinvent the wheel but support the best existing solutions from around the world to grow their influence in Germany. To achieve this, we initiated the "Hello Festival", teaming up with the global NGO ASHOKA to find the world's most powerful social entrepreneurs in the field of refugee integration. TEDx Berlin, Streetfootballworld, Betterplace, and almost 30 other partners across all sectors helped us set a stage for thirteen of them. In March 2016, they inspired more than 3,000 local experts, multipliers, and citizens at the three days Hello Festival by telling their story about impacting communities with hundreds of thousands of locals and refugees. Our employees and partners collected a total of nearly EUR 250,000 for the "Innovation fund for integration" to support the social entrepreneurs scale their impact in Germany. More information on the social entrepreneurs and their German partners can be found online.

After the Hello Festival, we continue supporting all funded projects with a fellowship program that is designed to multiply their impact over time. We also support some of the projects individually. For example, 75 refugees started using our hardware to work as professional counsellors for other refugees, trained by the social enterprise ipso e care. Another example is SINGA, for which some of our employees are mentors to refugees; others help them prepare for job applications.

OUTLOOK 2017

- We want to grow our expertise in helping social innovation scale, supporting not only the integration projects of the Hello Festival but also solutions related to our core capabilities Technology, Operations, and Fashion.
- We will continue supporting the communities around us so that doing our bit becomes a natural part of our corporate culture.
- We will look into methodologies that allow us to capture and report on the impact of our activities.

01.4.6 do.RESPECT

- Zalando emphasizes the importance of compliance and good corporate governance and strives to ensure compliance with all applicable laws at all times.
- Raising awareness among our employees regarding the importance and sensitivity of topics like anti-corruption and customer privacy is a major concern to us.
- We enable our customers to better understand their rights related to data protection and share our expertise with other companies.



Further information in the
Zalando City Guide
zln.do/en-b-and-b



Further information in the
Zalando City Guide
zln.do/en-hello



Zalando strategy



do.RESPECT

COMPLIANCE AND ANTI-CORRUPTION

At Zalando we respect the people we work with and the laws that shape our business environment. As mentioned throughout the chapter, we are striving to create a culture of honesty and trust. To supplement this culture, we have built structures that prevent non-compliance with applicable laws and processes that help detect non-compliance.

G4-56

The Zalando Code of Ethics as well as the Code of Conduct for Business Partners explicitly state that non-compliance with applicable laws is not accepted by the Zalando group. The Code of Ethics is published on our corporate website and on our intranet. Complaints can be addressed to the centralized Governance, Risk & Compliance (GRC) team, in a number of ways including anonymously via email. In 2016, there were no complaints regarding labor practices or human rights violations. All Zalando employees receive compliance training, either via face-to-face training or via eLearning, and information on complaint mechanisms form part of the training.

DMA Labor Practice Grievance Mechanisms
G4-LA16

Furthermore, Zalando has implemented an integrated Risk and Compliance Management System (RMS and CMS). Bi-annual risk workshops are carried out throughout the group to compile the group's risk inventory. Zalando's Code of Ethics as the basis of all relevant policies explicitly states that Zalando does not accept any form of corruption. Zalando has furthermore issued internal Group Policies to provide further guidance and to avoid any form of corruption, e.g. with regard to benefits and gifts, travel, and events. Respective compliance and anti-corruption training is obligatory for all white-collar employees. All leaders have to attend classroom training; other employees receive the training via eLearning. In addition, new employees are immediately instructed during our Onboarding Event and have to complete the training within their first three months. Donations and sponsorship are centrally monitored by our Corporate Responsibility team.

DMA Anti-Corruption
G4-14
G4-SO3
G4-SO4

DATA PROTECTION AND CUSTOMER PRIVACY

As a technology company, we take the protection of customer data very seriously. Data protection is a matter of trust and we respect our customers' personal space and privacy. Therefore, protecting personal data and collecting, processing, and using the data in accordance with the law are important concerns to us.



DMA Customer Privacy

Our Code of Ethics holds all employees responsible for ensuring that Zalando's high standards of data protection are respected without exception. Our IT policy and obligatory training for all employees are two measures that increase awareness among employees.

According to the applicable data protection laws, we inform customers on the personal data that we use, the purpose and processing of personal data, and the opportunity to object to data storage including contact options to raise concerns. We also have a team within our customer care which is dedicated to customer requests concerning data protection issues raised by customers.

zln.do/en-privacy-policy

Additionally, we are in contact with governmental authorities with regards to processing of personal data, mainly the Berlin Data Protection authority (Berliner Datenschutzbehörde). In previous years, we had the following number of enquiries by governmental authorities for the whole of Zalando: 2014: 6; 2015: 9; 2016: 6.

G4-PR8

The enquiries usually originate from dissatisfied customers who either did not approve of the information provided to them by Customer Care or, instead of contacting us directly, approached the authorities (German authorities are legally obliged to follow up on any complaint raised by customers). Additionally, the enquiries may also concern technical questions with regard to our data processing like the usage of cookies on our website.

When such an enquiry takes place, it is immediately forwarded to the Legal department which will then follow up with the authority, provide the requested information, and settle the request. There have not been any court proceedings with regard to unlawful data usage or data processing by Zalando initiated by any authority. Furthermore, up to now Zalando has not been fined for any breach of data protection laws.

Recently, Zalando developed an open source tool that creates a one-pager for a company's data privacy statement. Every German company – ranging from DAX companies to start-ups and bloggers – can use it to show customers in a very simple and transparent way what happens with their data. The basis of the tool is a form that was developed by the German Ministry of Justice. For the digital business, it is crucial to build up the customers trust; it could even become a competitive advantage of European companies. With the tool, we want to help both sides: Customers to better understand what happens with their data and German companies, especially start-ups, to easily create a simple one-pager which shows how data is used.

OUTLOOK 2017

- Our GRC team will grow its resources and expertise to secure compliance and risk avoidance along our international expansion in 2017.
- To further improve capabilities in data protection, we will build a group information security team, which will ensure that the efforts of our various teams and our information security are well aligned and follow a holistic strategy.
- As it is important to continuously inform and educate our own employees, we will further improve the training experience in both topics.



Zalando strategy