

1.2 Corporate Responsibility

1.2.1 do.THINK Ahead

- Zalando's sustainability strategy is a key driver for our future business success
- This year we report transparently about past actions, but furthermore added for the first time strategic targets in people, fashion, environment and society
- With our do.STRATEGY we want to make a systemic contribution towards more sustainability in our industry – together with our customers, partners and employees

Letter from Rubin Ritter

"At Zalando, we work hard to find better ways to bring people and fashion together. At the same time, we also see great potential for technology to increase transparency in the fashion value chain to ultimately contribute to solving the complex social and environmental challenges that our industry is facing. As a start, we had to do our own homework in order to get the basics right. In 2017, we took the next step in our sustainability strategy and identified areas in which we will try to make a systemic contribution that goes beyond Zalando. We believe that our contribution is most effective if we combine our strengths in technology, fashion, and logistics and actively engage our customers, partners and employees. Our sustainability strategy not only contributes to changing the industry, but is also a key element for our future business success.

GRI 102-14

Over the past year we have made decisive progress in developing our sustainability strategy. We continue to do our homework in all areas. However, we feel that we have reached a point where we can go one step further and have defined additional strategic targets in four key areas:

- Employees: we want to provide a workplace for the future and impact the future of work. To get there, an innovative concept for personal and professional development is of paramount importance to us and our employees. Therefore, we invested further in our performance and growth culture to enable employees to continuously grow personally and professionally.
- Fashion: we want to contribute to a more sustainable fashion industry. It is our ambition to become a leading online destination for sustainable fashion. In 2017, we focused on convenient and transparent ways for customers to navigate through our sustainable fashion selection. Our private labels further improved the social and environmental footprint of their products and teamed up with new partners and experts, e.g. in the Sustainable Apparel Coalition.
- Environment: we want to decouple our ecological footprint from our economic growth. To this end, we set targets in two focus areas: climate protection and sustainable packaging. We developed our first climate protection strategy and switched to 100% green energy in Germany, starting January 2018.
- Corporate citizenship: we want to find a suitable way for us to contribute to solving challenges we are facing as a society. We were proud to receive the German CSR¹ award 2017 for initiating cross-sectoral measures for refugee integration. Now we want to expand our efforts and intend to strategically invest 1% of our EBT in solutions for societal impact.


zln.do/en-workspace

zln.do/zLabels

zln.do/en-neighborhood

At Zalando, we constantly learn and iterate. That is why we invite all stakeholders to give us feedback on our approach and the new visions and targets."

1) CSR stands for Corporate Social Responsibility.

About This Chapter

- In 2016, we reported for the first time in line with the G4-Guidelines of the Global Reporting Initiative (GRI). We continue using GRI in our report 2017
- This report has been prepared in accordance with the GRI Standards: Core option
- Readers will find references to the GRI Standards in the sidebar, while the full GRI Index can be found on page 228

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Our do.STRATEGY

Reimagining the fashion industry and anchoring sustainability in our business model are exciting challenges for us. We are in the middle of a learning process and are approaching this task step by step. We started with the question of which sustainability issues are key for us and our stakeholders.² In the course of our initial materiality analysis, we defined 16 topics in five areas: employees, fashion, environment, society, and data protection.

GRI 102-46
GRI 102-47



zln.do/en-do-strategy

Our first major task consisted in creating transparency for ourselves about where we stand with regard to the relevant topics, how we can lay important foundations, and what paths we want to pursue. This groundwork will remain an essential element of our corporate responsibility (CR) activities in the future. As we are still a very young company, and one that is strongly growing, this has been and still is a challenge.





Throughout the whole company we have an action bias. We want to do more and talk less. This is also how we approach sustainability and therefore we called our CR strategy the do.STRATEGY. We used 2017 to define our ambitions for our systemic contributions within and outside of the company for four of our do.areas. The visions for our four do.areas, do.GROW – employees, do.KNOW – fashion, do.PROTECT – environment and do.CONNECT – society, all feed into our company purpose to “Reimagine fashion for the good of all.” With the changing regulatory environment in data protection we decided to continue working on the foundation before talking about impact visions. Therefore, we continue to report this topic in the governance chapter of this annual report.



Further Information
Corporate Governance p. 52

Our do.STRATEGY

→ 01

Purpose	do.areas	Impact visions
Reimagine fashion for the good of all	 do.GROW	Provide a workplace for the future and impact the future of work.
	 do.KNOW	Contribute to a more sustainable fashion industry.
	 do.PROTECT	Decouple our environmental footprint from our economic growth.
	 do.CONNECT	Reimagine how corporates contribute to societal challenges.

²) More information on how we identified our key topics can be found in the 2016 annual report on p. 22.

Each vision is broken down into strategic outcomes and specific targets that we want to achieve between 2018 and 2020. At the beginning of each chapter, we summarize the corresponding outcomes and targets that we will work on in order to get closer to our systemic impact visions.

Our Non-Financial Report 2017

Our Corporate Responsibility chapter includes our combined non-financial report for ZALANDO SE and the Zalando group in accordance with Section 289b (1) and (3) and Section 315b (1) and (3) HGB (German Commercial Code). Relevant information of the non-financial report can be identified by the indent of the paragraph and the black line next to the text. All information including relevant key performance indicators (KPIs) are provided jointly for ZALANDO SE and the Zalando group, as in our CR strategy and the related activities we do not distinguish between Zalando group and ZALANDO SE, and definitions and data collection processes do not allow for a separate presentation of KPIs for ZALANDO SE. Due to the different approach of the GRI Standards and the German implementation of the CSR Directive on Non-Financial Reporting (CSR-RUG) regarding materiality requirements, we do not apply any frameworks for our non-financial report 2017.

The information on our business model can be found in section 2.1.1 Business Model of our Combined Management Report. The definition of material topics for our non-financial report is based on the materiality analysis we conducted in 2014 and 2015. The 16 topics that we identified were analyzed according to business relevance and impact – positive as well as negative – of our business model on the corresponding topics. As a result we identified five topics to be material according to the CSR-RUG. The topics are: working conditions in Zalando Logistics, human rights in our supply chain, climate protection, community engagement and anti-corruption. Relevant information on the first four topics can be found in this CR chapter, while information on anti-corruption is provided in section 1.4.2 Corporate Governance in the Corporate Governance Report.

Our integrated risk and compliance function called Governance, Risk and Compliance (GRC) monitors risks that might impact our business performance in bi-annual risk workshops. The risks also include social and environmental risks and the results of the net risks with a high probability and high impact are summarized in section 2.4.4 in the risk and opportunity report. As a preparation for our non-financial report, the CR and GRC functions jointly analyzed these risks as well as potential further risks that emanate from our business, our business relationships, our products and services on the five material topics identified. As a result there are currently no net risks assessed with a high probability and high impact. The reason for this conclusion is that potential negative impacts are managed by the corresponding teams with strong measures and due diligence processes in place.



Further Information
Business Model p. 79



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Risk and Opportunity Report
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GRI 102-11

How We Manage Sustainability

The responsibilities and processes in the area of sustainability at Zalando are clearly regulated. 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 collaborates closely with decentralized counterparts throughout Zalando to implement sustainability-related initiatives. Furthermore, the team drives the implementation of the sustainability strategy, and identifies potential for optimization. At the same time, many teams and employees as proactive experts in their respective fields initiate measures that shape our business activity in a sustainable manner.

GRI 102-18

How We Engage Our Stakeholders

To drive sustainability in fashion and online retail, we actively engage our stakeholders and rely on the dialogue with our partners. We want to learn about their expectations and ideas and involve them in our commitment as closely, but also as flexibly as possible. Which stakeholders we exchange ideas with depends on their expertise and relevance for Zalando as well as their influence. This agile interaction allows us to respond to specific situations without having to define formal processes or formats for stakeholder engagement. This is part of our corporate culture and has proven its worth in practice.

GRI 102-40
GRI 102-42
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GRI 102-44

The focus of our commitment in 2017 was primarily multi-stakeholder initiatives that advocated, at an international level, more sustainability in the fashion industry's supply chain. While we are more proactive in pursuing topics with high priority, we are generally open to anyone who wants to get in contact and engage in exchanges with us.

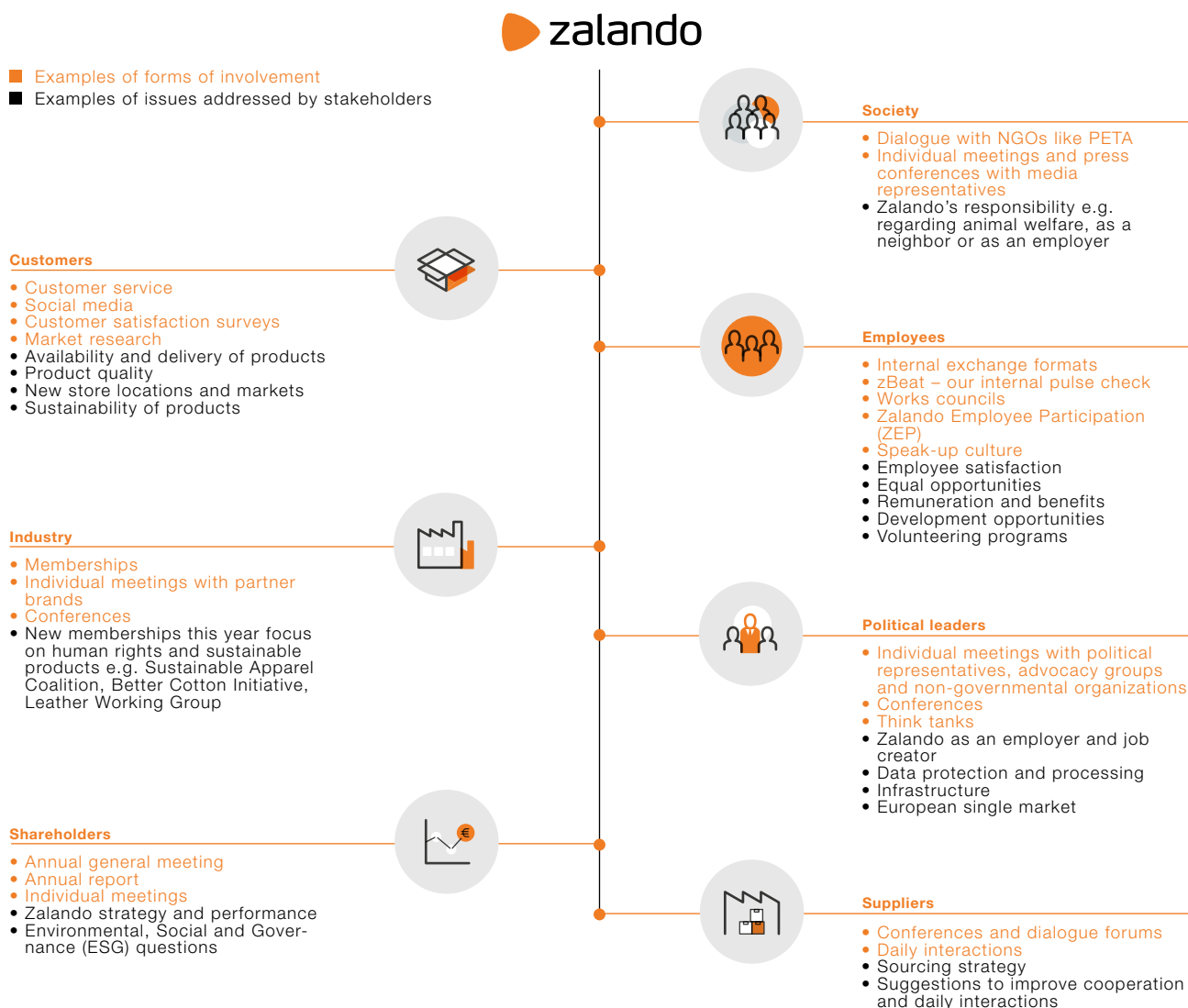
GRI 102-12
GRI 102-13



zln.do/en-CR-Contact

Stakeholder Engagement


→ 02



1.2.2 do.GROW

do.GROW

→ 03

Impact vision	Aspired outcome	Targets	Timing
Provide a workplace for the future and impact the future of work 	Zalando has built a state of the art development and growth culture	Enable continuous growth and development for each employee by building a real-time feedback and performance culture.	2020
		Help employees to kickstart their leadership career and provide comprehensive support to first time leaders.	2019
	Being a magnet: Zalando has continued its successful growth story and established an attractive and innovative work environment	Provide fair working conditions and continuously improve standards in all fulfillment centers independent of location, start-date or size of fulfillment center.	2020
		Successfully reduce attrition rate by 30% compared to 2017.	2020
		Increase representation of women in leadership positions to 25% on first and 30% on second level below management board.	2022
		Create an attractive and healthy work environment that fosters collaboration and entrepreneurial spirit.	2019

This Is Zalando – Open and Ambitious

Zalando unites talents from more than 100 countries. With great passion and a strong business sense, our constantly growing team has created Europe's leading online fashion platform in just a few years. In this dynamic environment, our more than 15,000 employees transform challenges into opportunities every day. Our employees continually develop new services and products in order to reimagine fashion – exceeding our customers' expectations. We want to create a work atmosphere in which employees are fulfilled and can leave their personal mark. To this end, we want to create an environment that fosters collaboration and entrepreneurial spirit. This means providing access to all relevant information and, at the same time, the freedom to impact Zalando's success story with own ideas and passions. This environment offers employees great opportunities for development. We support this personal and professional growth by building a strong feedback culture that enables development and learning opportunities on a daily basis.

As a company, we value diversity and focus on creating an open and honest atmosphere in which each individual feels encouraged to actively put forward opinions and suggestions – irrespective of tenure, age, or position in the company. We also recognize our responsibility as an employer to protect the health of all Zalandos and to provide a work environment that caters to the current and future needs of our employees' work-life balance. Attracting talent is an essential factor in the success of our growth strategy. That is why we want to design an attractive and innovative work environment together with our Zalandos.

Zalando in Numbers*

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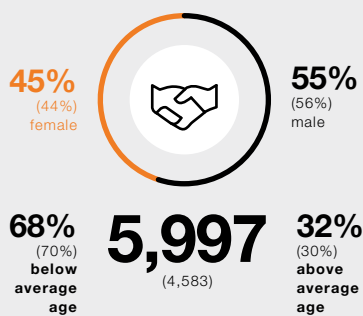
Zalando
keeps
growingGRI 102-7
GRI 102-8
GRI 401-1

Total number
employee exits
3,443
turnover rate: **25%**
female: **43%**
male: **57%**
above average age: **29%**
below average age: **72%**



Total number
employee exits
2,670
turnover rate: **25%**
female: **44%**
male: **56%**
above average age: **30%**
below average age: **70%**

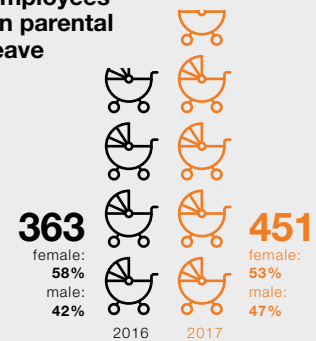
New hires



Target to reduce attri-
tion by 30% until 2020
compared to 2017

-30%

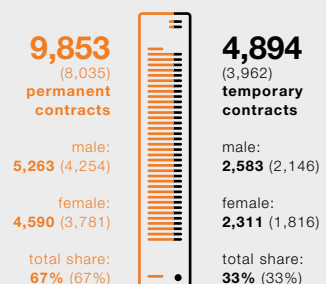
Average age

Employees
on parental
leave

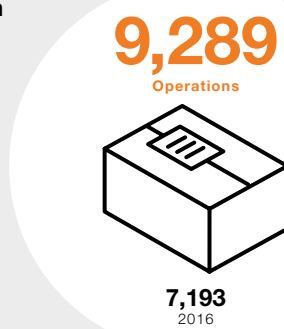
Employment types



Employment contracts



Employees by classification



*) The figures from the previous fiscal year are shown in parentheses. All numbers – except the total number of employees – do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

Prospects for Everyone

Zalando is constantly growing and we want our employees to personally and professionally grow 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 and impact the future of work.

GRI 103-1/-2/-3 MA
Training and Education
GRI 404-2

Turning Feedback into Development

We believe that the future of work will demand an essential characteristic from people: the ability to learn and continuously develop. We want to prepare Zalando for this, and therefore we fundamentally changed the way we develop employees in 2017. The aim of this change is to support employees in the dynamic Zalando environment so that they can use the experiences they gain and the challenges they face every day to stimulate a continuous learning process. The new development approach is summarized in a company-wide program called ZONAR and harnesses the power of appreciative and constructive multi-sourced feedback and self-reflection.



zln.do/en-workspace

With ZONAR we want to ignite a feedback culture among Zalando and kicked-off the process with an extensive set of feedback trainings. Still, we are well aware that giving constructive feedback has to be constantly practiced. In 2017, eligible Zalando shared and received almost 54,000 written feedbacks that served as input for individual employee development talks. Additionally, employees could choose whether they wanted to provide or request a short in-the-moment feedback, for example, after an important presentation, or a more comprehensive round of feedback.

To further support employees in their development, we launched a career framework that provides greater transparency on professional and personal development opportunities and the support employees can receive in the process. The career framework provides Zalando with information on job families, a grouping of roles with similar skill sets over departments, and the relevant abilities that are expected from colleagues in these positions. Each job family is additionally broken down into career stages and impact tracks that go beyond traditional general management career paths and empower employees to provide business impact through business development and expertise. Whatever development path employees choose, we encourage them to use the information and options that we provide and to be proactive in driving their own careers.

In the development talks, managers and employees agreed on targeted development goals and actions. Our employees are encouraged to take the lead and to define their personal development targets. Leaders act as coaches throughout the conversation; a role for which they receive special training in advance. Development talks were further bolstered by our development catalogue. This catalogue promoted development areas and corresponding actions which included skill building on the job, joint learning, and self-study options using digital and offline sources such as videos, articles, and books. In line with our philosophy of continuous development, we wanted to raise awareness among employees for learning opportunities that go beyond classroom sessions and can be integrated into daily work.

As we are continuously learning, we collected a lot of feedback from employees all over the company and in all hierarchies on ZONAR, the tools we used and the support that was provided. This feedback will help us to improve the program and cater to the needs of our employees and the organization. In the long-run, ZONAR will further professionalize our people development with the

help of data. We want to use data for a more coherent understanding of the goals and actions that Zalando is pursuing. This leads to more data-driven decisions on strategic investments in people development.

Knowledge Transfer from Learning Communities

We invest in an unconventional organizational structure for people development: experts in distinct learning communities develop concepts that are tailored to the knowledge, learning and work environment of the corresponding functions. For example our Tech Academy offers specific training on coding languages, while our Training Teams in Zalando Logistics focus, for example, on tailored leadership development for staff in our fulfillment centers. Our central People Development Team strengthens the relationship between the different learning communities and provides assistance and support to enhance the learning experience. Further, they test innovative learning formats, e.g. virtual reality to foster team communication or using the learning potential of volunteering. The latter provides employees with the opportunity to help social initiatives pro bono with their expertise and thus reinforce or further develop their own expertise and presentation or coaching skills.



zln.do/en-volunteering

Further, we continued offering employees the pilot program for learning how to code, even if this skill is not required in their current role. With our coding as a foreign language program, we want to prepare employees for the jobs of the future. In 2017, we adapted the program to pilot a learning environment in which non-tech Zalando and refugees learn Java Script together. To enhance the experience of learning with and from each other, the pilot further included workshops on the Arabic language and Syrian culture in which Zalando could learn from refugees and enhance their intercultural skills.

Leaders with a Special Role

Leaders play a vital role in ensuring that a learning culture and constructive development conversations are fostered at a team level. We are committed to giving employees the opportunity to take on leadership responsibility and to support new as well as experienced leaders. In 2017, we launched programs dedicated to this idea, such as the ZONAR Leaders Series, a series of workshops that prepare managers for a wide variety of situations in performance reviews, e.g. tough talks and feedback labs. Moreover, we have introduced additional leadership programs, including Be a zLeader for first time leads and Core of Coaching to help enhance leaders' abilities to coach employees.

Our Culture – Open and Honest

An open feedback culture is a prerequisite for a successful company. We use our recurring online survey zBeat (five surveys during 2017) to see how satisfied employees are and how they gauge certain issues such as our feedback culture at the time in question. The results from the business units are published for all to see, so that managers and teams can discuss them with each other. The participation rate for the surveys is approximately 50% on average.

Our interactive intranet zLive allows us to share information within the whole company or relevant groups promptly and in real time. All employees can send updates, for example to their team or their network. The functionalities are similar to those of a social network and promote a company-wide conversation in which everyone with access to the Zalando network can participate.

Direct exchanges between the Management Board and the employees are very important for us. There are three formats for this: the All-Hands meeting, the zTalk, and the recently introduced Ask-Us-Anything format. The All-Hands meeting is used by our Management Board to inform all Zalandos about strategic topics and company-wide projects. In our zTalk, the Management Board and/or guest speakers provide inspiration and talk about relevant trends in our industry. Our new Ask-Us-Anything format allows all of our employees to discuss current issues and topics with the Zalando management. All-Hands and zTalks are held once every quarter. All the formats can be streamed live in all our locations and are also accessible online afterwards. At the end of each meeting, employees have the opportunity to ask the speakers questions – live or online. Another format, zInsights, offers each team the opportunity, as needed, to inform all Zalandos about projects and initiatives that are relevant for large parts of the company.

GRI 103-1/-2/-3 MA
Labor/Management Relations

We also encourage exchanges between local leadership and employees in our Zalando Logistics. In weekly consultations hours, employees have the opportunity to share their opinions, questions, and ideas. In addition, we have our Logistics News, an informative print magazine that we publish every two months, in particular for the employees at our fulfillment centers. The magazine covers both general news about Zalando and Zalando Logistics as well as specific issues related to the particular location.

Promoting Inclusion and Diversity

The diversity of people, lifestyles, opinions, and attitudes are crucial drivers of innovation and success. That is why inclusion and diversity are firmly embedded in the corporate culture at Zalando. For us, inclusion describes a culture in which we can all collaborate, develop our unique talents, and achieve excellence together. We believe that an inclusive culture is the most effective way for us to increase diversity within the company and benefit from it.

GRI 103-1/-2/-3 MA
Diversity and Equal
Opportunity

We are continuing to raise awareness about the importance of inclusion and diversity when onboarding new employees. Further, teams have the opportunity to access tools designed to strengthen their own inclusive culture and to exchange experiences and articles on zLive. Zalandos who want to get involved as inclusion and diversity champions are given the opportunity to do this in our network for diversity called Diversity Guild, which was originally limited to our technology teams, but is now active throughout the company. We additionally celebrate special occasions and participate in external events that emphasize various dimensions of diversity, such as the German Diversity Day, International Women's Day, and Christopher Street Day. Furthermore, we started to invite guest speakers to share their insights with employees, e.g. in one of our zInsights.

GRI 102-12

In 2017, we took part in an increasing number of conferences and events in the tech community on the topic of gender equality and LGBT³ and drafted our job advertisements to be gender-neutral. We are additionally revising our hiring process with the aim of increasing the diversity of candidates and thus of the company itself.

Employee surveys in 2017 show that our efforts have a positive impact: 73% of employees have the impression that different perspectives and experiences are valued in their team. 81% believe that they can be themselves at work and feel accepted.

3) LGBT stands for "lesbian, gay, bisexual and transgender."

Zalando is a highly international employer. We unite people from 131 countries, and approximately 43% of our employees are non-German citizens. To create a welcoming culture for international colleagues, we provide them with support during the local registration process, with translations of important documents such as health and safety training, and offer mentoring programs, to name but a few.

Diversity is also a high priority in Zalando Logistics. At each location, trainings are provided to strengthen intercultural skills, and events are organized to raise awareness of similarities and differences between cultures, languages, and journeys through life. Moreover, our locations are involved in local and nationwide initiatives. Our fulfillment center in Erfurt, for example, has signed the Charta der Vielfalt (Diversity Charter), while the one in Brieselang is an active member in the initiative Tolerantes Brandenburg.

GRI 102-12
GRI 102-13

Women in Leadership

We are dedicated to increasing female representation in leadership positions and therefore set a target for 2022: we are striving to increase the percentage of female managers at the first level below the Management Board (SVPs) to 25% (currently 11%) and at the second level below the Management Board (VPs) to 30% (currently: 19%).

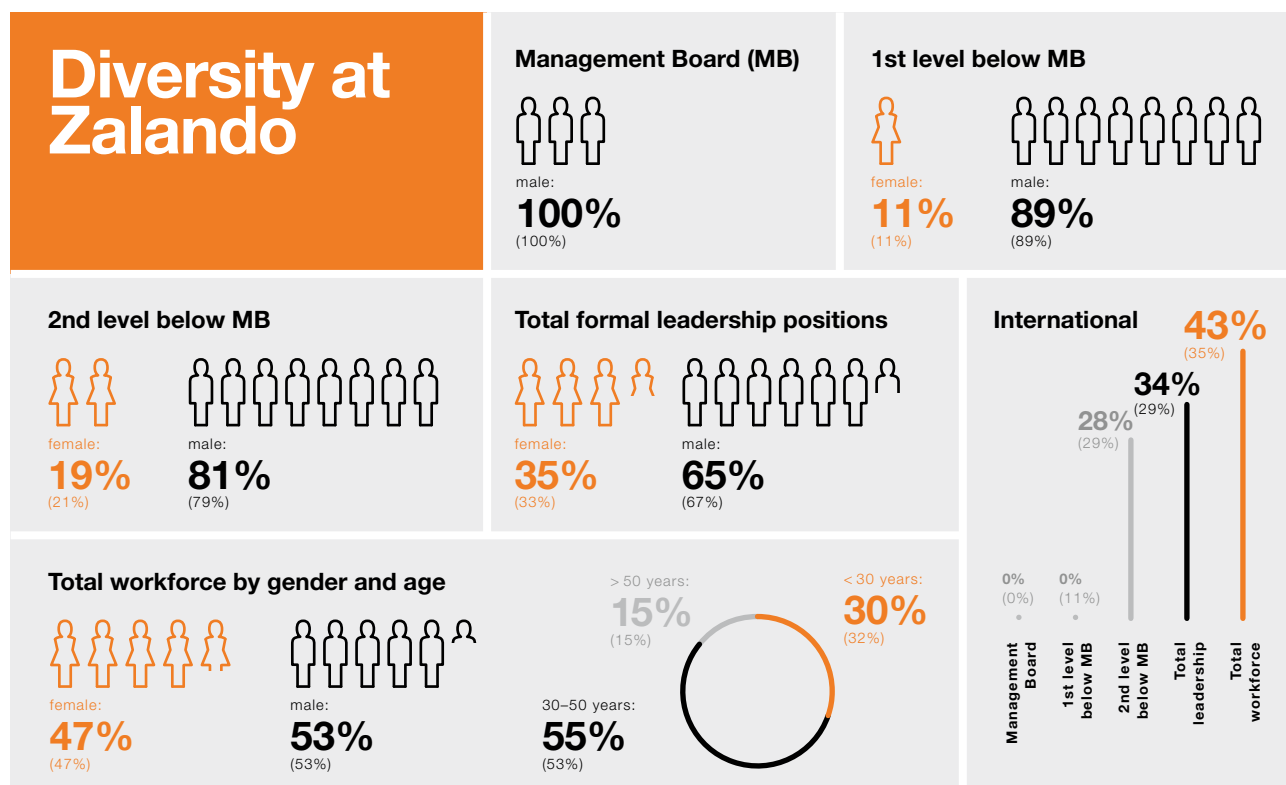
GRI 405-1



Further Information
Corporate Governance Report
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zln.do/en-supervisory-board

Employees by Gender and International Background*

→ 05



*) The figures from the previous fiscal year are shown in parentheses. Numbers displayed do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

Family Friendliness

In order to be an attractive employer for parents, we offer flexible working hours and job location solutions as well as childcare facilities. With our mom-and-dad shift in our fulfillment centers, we have established a family-friendly shift system that was designed in collaboration with our employees and has been very well received by them. At the same time, an ever-increasing number of our employees are making use of their right to parental leave.



Further Information
Zalando Keeps Growing p. 17

Zero Tolerance for Discrimination

We do not tolerate breaches of the principles of our corporate culture and discrimination of any kind. Our Code of Ethics and guidelines for the implementation of the German Equal Treatment Act (AGG – Allgemeines Gleichbehandlungsgesetz) form the basis of fair and respectful interactions. If Zalando employees feel discriminated against, they have several options for putting forward their concerns:

- Our Compliance function by using the Ask and Tell process (which can also be done anonymously)
- Their contact person in P&O, our Human Resources Department
- Social workers in the fulfillment centers and our customer care
- Works councils or other employee participation bodies such as ZEP (Zalando Employee Participation)



zln.do/en-ethics

GRI 103-1/-2/-3 MA
Non-Discrimination
GRI 102-16
GRI 406-1

All cases are taken seriously and processed in accordance with legal requirements.

Attractive and Fair Employment Conditions

Our Remuneration Model

Fair compensation that is in line with market standards is an integral element of good employment conditions for us. We continuously review our pay system to ensure that it is attractive and motivating. Employees receive a remuneration mix comprising a fixed salary at market level, special bonuses for outstanding performance, and a broad range of attractive benefits. The remuneration for our leaders consists of a monthly salary as well as long-term oriented share options granted on an annual basis. This is intended to further reinforce the entrepreneurial spirit of our leadership and to foster a sense of ownership.

GRI 103-1/-2/-3 MA
Employment

As benefits, we offer discounts in our shop, free and subsidized employee stock ownership plans, life insurance, contributions to public transport tickets, as well as free fruit and soft drinks at work. Furthermore, employees benefit from health programs including sports activities, massages and workshops, e.g. on mental health. The health programs differ between our locations.

GRI 401-2

The remuneration for each individual position at Zalando is regularly compared to market levels and adjusted based on the individual skills, experience and performance of the employee. Clearly defined criteria and processes for remuneration decisions ensure objectivity and internal fairness. With this approach we strive to avoid, for example, pay gaps between men and women. To provide our employees with as much transparency as possible, we inform them of the individual pay level in comparison with our salary bands in the course of the annual performance and feedback review.

Salaries at Zalando Logistics are based on the general conditions of the collective bargaining agreements in the logistics industry. Especially in Zalando Logistics, temporary staff contributes to our success every day. Fairness and respect for them are established elements of our corporate culture. We clearly state in our social standards that temporary workers shall receive the same hourly wage as our permanent employees.

Social Standards in Zalando Logistics

Approximately 62% and thus a significant part of Zalando's employees works in our operations. With a high level of commitment, these employees ensure that more than 23m active Zalando customers in 15 European markets experience convenient and reliable service every day. A large part of our logistics is covered by our own fulfillment centers. To show our appreciation of this contribution, we strive to continuously improve the working conditions at all Zalando Logistics locations and those of our partners and therefore set this as one of our main targets in our do.GROW area. Our expectations in this regard are summarized in our social standards, which are applied both in our own fulfillment centers and in those operated by our partners in the Fashion Store logistics network. These standards are based on our Code of Ethics and Code of Conduct and include topics such as equal opportunities, remuneration, working hours and freedom of association. As part of the continuous improvement process of working conditions, we updated the social standards in 2017.

In our own Fashion Store fulfillment centers the implementation of our social standards is reviewed twice a year in the form of an unannounced audit by an independent external institution, DEKRA. The average result of the audits in summer 2017 at our sites in Brieselang, Erfurt, Lahr and Mönchengladbach was 1.41 (on a scale of 1 = very good to 4 = not sufficient). We thus monitor compliance with our social standards and derive measures to improve working conditions. The auditing process was furthermore checked by our internal audit function in 2017.

Employees as well as temporary staff at our own fulfillment centers have the opportunity to address all concerns to social workers and to receive counseling during their working hours – also in private matters.

We value co-determination and are in continuous dialogue with our employees. In order to stay on top of the strong competition for employees and potential applicants, we have to meet high standards and continuously work on further improvements – in general and at each location. That is why we strive to provide good working conditions and fair compensation models that we develop in a joint effort with our employees. Several works councils have already been established and actively engage at the corresponding locations.

GRI 102-16


zln.do/en-CR-Contact

GRI 402-1

 GRI 103-1/-2/-3 MA
Occupational Health and
Safety

Providing a Healthy and Safe Work Environment

We want to offer our employees a safe and healthy work environment. That is why we aim at completely preventing accidents (Vision Zero) and minimizing the risk of occupational illnesses. Our health and safety management concentrates on both the physical and the mental health of our employees.

We have established clear and reliable structures within Zalando and Zalando Logistics that offer tailored solutions for corresponding work environments. Depending on the risks that have been identified, the Zalando companies are reviewed every one to six months by internal and external auditors, who base their work on the OHSAS standards. Appropriate measures are derived from this process, the effectiveness of which is reviewed in the course of follow-up inspections.

Health and Safety Indicators*

→ 01

GRI 403-2

	2017	2016
Absentee rate Zalando Logistics	10.6%	11.2%
Absentee rate Zalando excluding Zalando Logistics	4.6%	5.3%
Work-related fatalities	0	0

*) Numbers displayed do not include Anatwine Ltd., Ifansho Portugal Unipessoal Lda., KICKZ Never Not Ballin' GmbH, zLabels Trading Ltd., zLabels Trading Southern Europe S.L.U.

In order to prevent accidents in our office buildings, there are online tutorials, training courses for fire safety assistants and first aid helpers, while protective equipment is provided along with supporting information on zLive. Furthermore, we offer our employees health-promoting activities on a regular and voluntary basis, including preventive occupational health care. In 2017, employees could participate in an extensive range of sports programs, massages, vaccinations and consultations on ergonomics at the workplace. The program also included workshops on mindfulness, meditation and Qi Gong.



zln.do/en-health

In our fulfillment centers, all health and safety issues are resolved in close consultation with the employee representatives. There are occupational health and safety committees following up on the needs of our employees. The focus of optimization measures is placed on ergonomic work at height-adjustable tables and the implementation of shift schedules designed to prevent monotonous movement patterns. Employees can also have free vaccinations and benefit from regular sports activities. We work closely together with our in-house doctors on all measures.

1.2.3 do.KNOW

do.KNOW

→ 06

Impact vision	Aspired outcome	Targets	Timing
Contribute to a more sustainable fashion industry 	Zalando is a leading online destination for sustainable fashion	Grow the selection of sustainable fashion in our Fashion Store.	2020
		Improve navigation and visibility of sustainable fashion in Fashion Store.	2018
		Use our unique position as a tech and a fashion company to increase transparency in the fashion value chain.	2020
	Our private labels have improved their social and environmental footprint	Source 25% of private label products from factories in our Factory Improvement Program.	2018
		Reduce carbon, water and waste footprint of our suppliers by 10% to meet European Clothing Action Plan targets.	2019
		Eliminate critical heavy metals.	2020

We want to leverage our unique position as a fashion and tech company with an enormous outreach to contribute to a more sustainable fashion industry. For us, this implies providing customers with a great choice of sustainable and fashionable items and at the same time a convenient and transparent shopping experience. In our own supply chain, we are aware of the responsibility we have towards people and the environment and are committed to improving the social and environmental footprint of private label products.


zln.do/en-assortment

Our Supply Chain

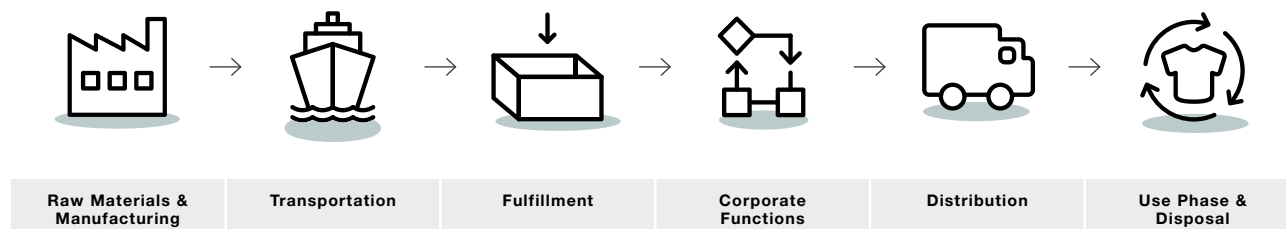
Our supply chain can be broken down into six phases. In the first two phases, third-party brands and our private labels produce items that are transported to our fulfillment centers. In the fulfillment centers, products are stored and prepared as soon as customers place an order. Our internal corporate functions – such as technology, marketing, and customer service – ensure that customers have a convenient shopping experience. Distribution partners subsequently deliver the products to our customers. The last stage of the supply chain is the use phase and ultimately the disposal of products.

GRI 102-9


zln.do/en-supply-chain

Our Supply Chain

→ 07



Supply chains for producing fashion are very complex and span across the globe – our supply chain is no exception. This entails challenges and risks, especially in terms of human rights, working conditions, and environmental protection. That is why we strive to improve the social and environmental impact of the products on our platform. In our approach, we distinguish between third-party brands and our private labels. The work involving our private labels represents a significant part of Zalando's commitment to improvements in the supply chain, as our impact is stronger at this point. This will be reflected in the following subchapters on sustainable products, animal welfare, human rights and product safety.

The Supply Chain of Our Private Labels

Our private label brands such as mint&berry, Pier One and Zign are managed by the Zalando subsidiary zLabels. zLabels has 17 private label brands, which source products from 24 different countries. The main sourcing countries are China (46%), Turkey (10%), India (10%), Bangladesh (8%), Spain (4%), Portugal (4%), Vietnam (3%), Romania (2%), Cambodia (2%) and Bulgaria (2%). Due to the size and variety of our assortment, zLabels does not own any supply base or factories, but rather collaborates with sourcing partners and agents with years of technical expertise in their respective product areas. We currently cooperate with 272 sourcing partners and 450 factories⁴, a small decrease in comparison to 2016. Consolidating our sourcing partner base and strengthening relationships with strategic partners helps us to maintain better oversight over the supply chain and to work closely with partners on an individual basis.

GRI 102-4
GRI 102-9
GRI 102-10

Gaining transparency throughout the supply chain is an important focus for us, and in 2017 we began a mapping exercise for tier 2 processes in order to trace and track our sourcing partners along this tier.

4) Status December 29, 2017

Our Commitment to Sustainable Fashion

It is our ambition to become a leading online destination for sustainable fashion. More and more customers are interested in ethical, animal- and environmentally friendly clothing. That is why we want to use our expertise in technology and fashion to provide customers with an attractive offering as well as the necessary transparency for an informed buying decision. Today's market for sustainable fashion is still fragmented and difficult to navigate for customers in terms of easily accessible and understandable product information. Certificates such as GRS (Global Recycling Standard) are intended to help, but are largely still unknown among customers and, because there are so many, can easily cause confusion. We want to improve this situation for our customers with product transparency and simple online navigation.

Sustainability is becoming an important new driver of consumers' purchasing decisions.

The State of Fashion, McKinsey 2017

31% of all customers in Germany purchased sustainable fashion in 2016.

Dr. Grieger & Cie Marktforschung



zln.do/en-sustainability

We are exploring new ways to highlight information on certified products that we offer online, and our customers have responded positively to these efforts so far. Our on-site personalization initiative in the online shop simplifies the search for labels such as Fairtrade or Organic Cotton. In addition, we are testing customer communication on sustainability topics such as sustainable jeans products through a separate microsite.



www.zalando.co.uk/sustainable-fashion/

In 2016, we launched the sustainable flag in the children's category in the German Fashion Store, and expanded it to all markets and categories in 2017. We continue to refer to certificates such as Fairtrade and the Global Organic Textile Standard (GOTS) in order to fulfill the highest and externally audited standards. At the same time, we know that many innovative brands are implementing high sustainability requirements in their products and supply chains without having these certified by an external organization. We are working on ways to highlight their commitment towards customers. In this process we are collaborating with brand partners and experts from the industry.

Sustainable Products at Our Private Labels

We have a responsibility to improve the clothes that we make. To this end, we are making strides towards growing our offer of sustainable products. In 2016, we began developing our first sustainable products as part of our re:imagine collection, which we launched in January 2017. It included 48 styles across five different brands, certified with GOTS and GRS. We continued to offer the re:imagine collection throughout 2017, and our organic cotton range for babies, STUPS Organic, will be fully GOTS certified for the upcoming spring/summer 2018 season.

This year we also took some sizeable steps forward to scale up our sustainability efforts across the entire zLabels brand portfolio. We joined the Sustainable Apparel Coalition (SAC) and submitted our first results to the SAC's Higg Index to benchmark our performance against other leading brands. Minimizing water and waste is one of our focus areas in our supply chain, and by using the Higg Index we will be able to measure the sustainability performance of our partners and their factories. We are actively engaging with our sourcing partners to increase the number of tier 1 factories using the Higg Index.

GRI 103-1/-2/-3 MA Water
GRI 103-1/-2/-3 MA Supplier
Environmental Assessment
GRI 102-13

Collaborating closely with the rest of the industry is important to us as we are constantly exploring better solutions to common challenges. In 2017, we travelled to the University of Santiago de Compostela to receive advice on a range of topics and are actively using open-source tools such as the SAC's Materials Sustainability Index and data from Nike's Making app to make more informed decisions.

We signed up to the European Clothing Action Plan (E-CAP) to reduce the environmental impact of our products and have set ourselves a minimum target of 10% in carbon, water and waste savings by 2019 by switching to more sustainable fabrics such as organic cotton, TENCEL®/Lyocell and recycled polyester. We are working closely with our Design and Sourcing Teams to change our buying habits from conventional materials to more environmentally-friendly alternatives and are investing in training delivered by external experts on topics such as recycled materials, wet processing and trims.

GRI 102-12
GRI 103-1/-2/-3 MA Materials

To continue our journey of sourcing more sustainable fabrics, we became members of the Better Cotton Initiative, which exists to make global cotton production better for the people who produce it, better for the environment it grows in and better for the sector's future.

GRI 102-13

While leather offers some important benefits in terms of product quality and lifespan, we are aware that the production process is associated with many complex social and environmental issues. In 2017, we began investigating our leather supply chain past tier 1 and became members of the Leather Working Group, which rates tanneries under its Gold, Silver and Bronze system. We have now identified five strategic tanneries/sourcing partners that we will work with over the coming years to improve environmental standards and the lives of the many people supported by the leather industry.

Committing to Animal Welfare

Zalando is committed to animal welfare and the conservation of biodiversity. Our ethical sourcing standards are based on Directive 98/58/EC concerning the protection of animals kept for farming purposes and the standards of the World Organisation for Animal Health (OIE). Zalando does not sell any products that originate from endangered species listed in international conventions. We allow only products from farming animals that have been bred for meat production. Further, we condemn any form of cruelty to animals and do not sell any type of rabbit wool such as angora. Zalando stopped selling articles made of fur in 2012 and has been a member of the Fur Free Retailer initiative since 2016. This organization informs consumers about how retailers deal with fur products and supports retailers who undertake not to sell fur.

GRI 102-2
GRI 102-12
GRI 102-13
GRI 102-16

Animal Welfare at Our Private Labels

We expect even higher standards for our private labels, and in 2017 we started to implement the Responsible Down Standard (RDS) across all our private brands. We also know that vegan products are important to our customers, and for autumn/winter 2017 we launched 27 additional vegan shoe styles under our Even&Odd label, which we intend to expand significantly over the next few seasons. We were very proud that one of our shoes was selected as the winner of PETA's Vegan Fashion Award and are collaborating closely with PETA on the roll-out of our vegan strategy to other brands.

GRI 102-16

Protecting Human Rights in Our Supply Chain

Our Code of Conduct sets the minimum standards that we expect all our business partners and their subcontractors to comply with, such as minimum wage, freedom of association and the absence of forced labor, child labor, and discrimination. It is based on the principles of the Universal Declaration of Human Rights (UDHR) and the Conventions of the International Labor Organization (ILO). We continuously review the minimum standards we set forth with our Code of Conduct and update it on a regular basis. The latest update took place in 2017.

Audit Program of Our Private Labels

Checking that our sourcing partners comply with our Code of Conduct and treat the workers in our supply chain ethically and fairly is a crucial part of our work at zLabels. In 2017, we reviewed and relaunched our audit program with changes to create a more robust program. The new program was communicated to our sourcing partners in December 2016, and the changes were implemented in March 2017. We limited the number of auditing companies and reduced the types of audits we accept. We remain committed to reducing audit fatigue and working together with the industry to find a common solution. We are also collaborating with other brands through the Social and Labor Convergence Project.

GRI 103-1/-2/-3 MA
– Freedom of Association and
Collective Bargaining
– Child Labor
– Forced or Compulsory
Labor
– Human Rights Assessment
– Supplier Social Assessment
GRI 308-1
GRI 407-1
GRI 408-1
GRI 409-1
GRI 412-1
GRI 414-1

Our Ethical Trade Team evaluates all audits received against our internal non-compliance matrix. The matrix is based on the standards set forth in our Code of Conduct as well as local legal requirements. The findings on non-compliances are clustered into minor, major and critical, a rating is given to the factory, and a Corrective Action Plan (CAP) is sent.

In order to address specific country risks, we developed a country risk categorization based on international indicators as well as audit findings. This risk categorization allows us to focus our work on areas where the greatest improvements need to be made. This year we added additional requirements for factories from twelve different countries, and we also launched additional policies to protect migrant and homeworkers.

As part of our onboarding process, all new sourcing partners must sign our Code of Conduct, and the corresponding factory must meet all ethical requirements before orders can be placed. As part of the updates to our audit program, we now require an audit that has been conducted within the past twelve months to set up a new factory. If critical findings are observed, we do not begin the relationship without evidence that the existing findings have been remediated. In the past year, we rejected the onboarding of 52 factories due to ethical trade concerns.

For our existing factories, we request new audits every twelve months to monitor and reassess factory conditions. In 2017, we evaluated 506 audit reports for new and existing factories. If a critical instance of non-compliance is found at an existing factory, we require evidence of improvement to continue our business relationship.

The addition of a new Ethical Trade Team based in Hong Kong has enabled us to develop closer relationships with our partners at source. Our Ethical Trade Team visited 68 factories in 2017. Our team based in Hong Kong also works closely with our partners and their factories to develop customized improvement plans based on the challenges faced by individual factories.

We believe internal training is key to establishing good practice across the business. To ensure Sourcing and Product Teams are aware of the impact of buying decisions on our supply chain, we rolled out a new ethical trade e-learning. It is mandatory for all zLabels employees to complete the e-learning and in addition, specific training on sustainability and ethical trade topics were also offered throughout the year.

Factory Improvement Program (FIP) of Our Private Labels

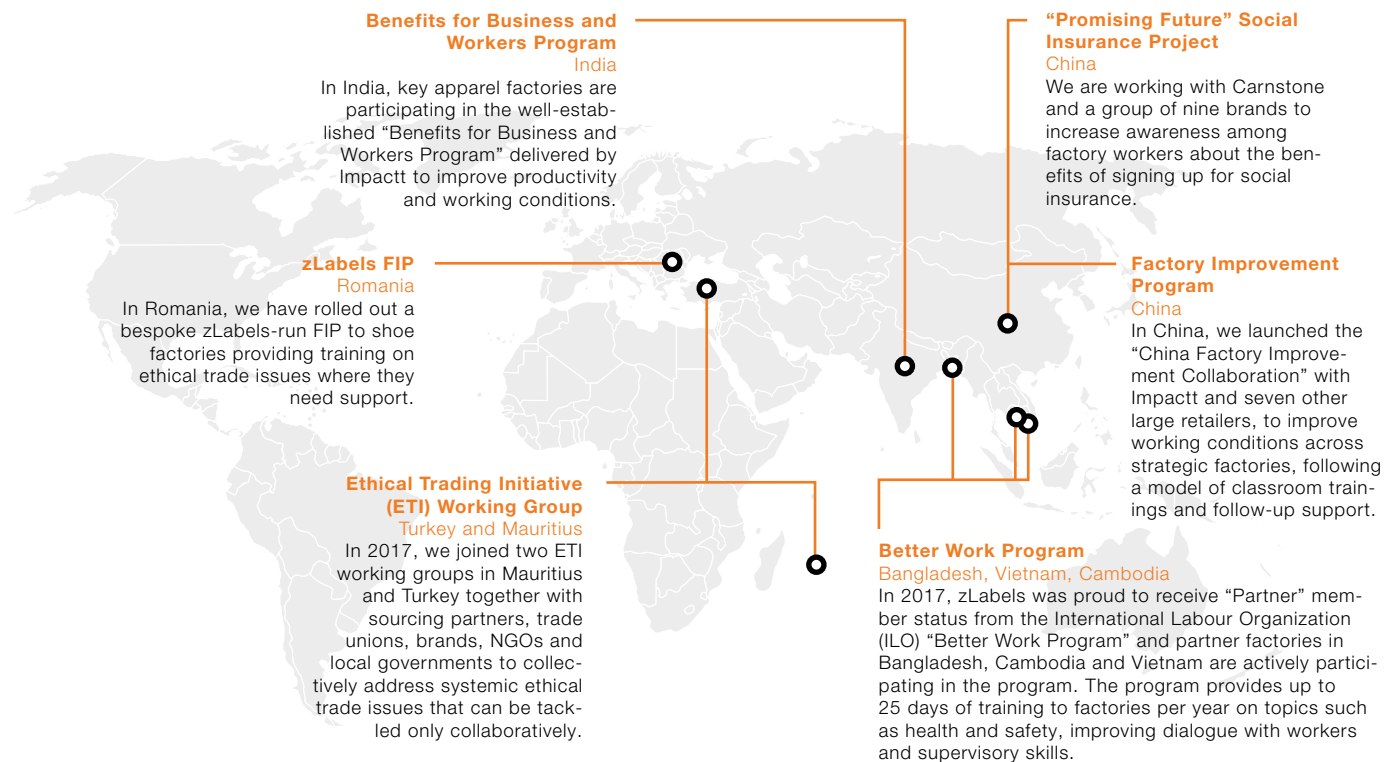
zLabels is committed to improving working conditions in our supply chain and we realize that to achieve this, we need to go beyond auditing and support partners and their factories on the ground. Our FIP has grown this year, and as shown in figure 08, we now have seven programs and initiatives across eight countries, working with four independent partners. 20% of our products are sourced from participating factories. Our aim is to increase the share of products sourced from FIP factories to 25% in 2018.

We regularly review our classification of high-risk countries and focus on factories in the countries where there is the greatest need for action. We also select factories based on their respective performance and need for support.

GRI 102-12
GRI 102-13

zLabels Factory Improvement Program in 2017

→ 08



Sourcing from many countries across the world, with different cultures, governance, legislation and business practices, means that we must approach factory improvement work in different ways to ensure the support we offer is tailored and relevant. This is reflected in the various programs and initiatives we choose.

We are also aware that many ethical trade issues we face in our supply chain are endemic to the countries we work in and cannot be tackled alone. We therefore work as collaboratively as possible with other brands, organizations, trade unions, NGOs, sourcing partners and government stakeholders to drive improvements through the industry together.

To incentivize factories to go beyond auditing and engage in capacity-building factory improvement work, we do not request a social audit report for the duration that a factory is in an FIP and award additional points to the zLabels ethical trade score.

We continuously monitor our factory improvement work to understand the success of each program and initiative and to ensure we are supporting our partners and their factories in a useful and meaningful way.

Our Private Labels in Dialogue with Sourcing Partners

In 2017, we repeated our Vendor Summit in Berlin, Delhi and Hanoi attended by 139 of our sourcing partners. At these summits, we updated our partners on our corporate strategy, our Code of Conduct and the implications of new legislation, such as the UK Modern Slavery Act. Through a series of workshops and moderated panel discussions, we also used the opportunity to engage in a dialogue with our business partners to discuss better ways of working.

The establishment of In-Country Sourcing Teams in Spain, Portugal, India, Hong Kong and China has given us more accessibility to factories, improved linear communication with our partners and overall enhanced the transparency of our supply chain.

At zLabels, we also have a Supplier Partnership Program (SPP) led by our Sourcing Team, which evaluates sourcing partner performance across a range of areas; e.g. quality, ethical trade, product safety, logistics and financial terms. The objective of the SPP is to gain complete transparency of our sourcing partners' performance and provide an incentive by awarding more business to higher-performing sourcing partners. In 2017, we worked closely with key sourcing partners to develop action plans to help support their improvement.

Ensuring the Safety and Quality of Our Products

In the interest of customers, factory workers, and the environment, Zalando sets clear guidelines on the permissibility of certain substances in products we sell. The Restricted Substances List (RSL) defines the thresholds that apply to harmful substances and that must not be exceeded. The list applies to all products and is compulsory both for the suppliers of our own brands and for our partner brands.

GRI 103-1/-2/-3 MA
Customer Health and Safety

In addition to the high quality standards of our partner brands, we have established our own guidelines and processes for ensuring product quality. Using a scorecard approach for all product categories allows us to focus on products that exhibit a higher safety risk. We work with the suppliers in question so that these products fulfill all requirements, and we encourage communication and exchanges on best practices.

Zalando furthermore responds immediately to information and questions from various channels, such as customer ratings, customer care queries, the weekly RAPEX report, and the media. If these create doubts over the safety of a product, Zalando suspends respective sales as a precautionary measure and, if necessary, immediately recalls products that have been sold. We had 13 recalls in 2017 while our assortment range covers around 200,000 units. This is line with the 2016 numbers when we had to manage 15 recalls.

GRI 416-2

Product Responsibility at Our Private Labels

We review the products sourced for our private labels at an early stage in order to be able to implement any corrective measures immediately. This way, the items that reach our customers fulfill our high standards. There were no recalls for our private label products in 2017.

GRI 416-1
GRI 416-2

We want to continually reduce the volume of harmful chemicals used in the production of our private labels. This effort means less risk to customers, workers along the supply chain, and the environment. With the support of the University of Santiago de Compostela, TÜV and Bureau Veritas, we reviewed and updated our standards on restricted substances in 2017 to ensure that they were following state-of-the-art science. The chemicals restriction list now contains more than 300 restricted substances. Moreover, we successfully adjusted our chemical management system and internal guidelines to comply with international standards such as the EU systems (REACH and POP) and the standards of the US Consumer Product Safety Commission.

All sourcing partners are required to avoid the use of possibly harmful substances to ensure that our products are safe. We fine-tuned our chemical test routine and risk assessment, which led to improvements in sourcing partners' performance for good chemical management. Our bespoke Continuous Improvement Program allows us to monitor and rank our sourcing partner using a scorecard and to drive specific actions for the most challenging sourcing partners. This effort already resulted in a total improvement of 36% for the score of those sourcing partners from the spring/summer season to the fall/winter season 2017.


Throughout 2017 approximately 12,000 chemical tests were conducted for our private label products. Due to comprehensive testing, monitoring and chemical elimination programs, we were able to improve the fail rate in most critical parameters by 28% compared to 2016.

In 2017, we initiated a program to phase out critical heavy metals, where technically possible, from the manufacturing process step-by-step until 2020. As a first result, we were able to eliminate 25% of those hazards in our products.

1.2.4 do.PROTECT

do.PROTECT

→ 09

Impact vision	Aspired outcome	Targets	Timing
Decouple our environmental footprint from our economic growth 	We have mobilized our full climate protection potential across our value chain	Reduce CO ₂ emissions per order by 10% by 2020 compared to 2017 levels.	2020
		Require and enable 100% of our packaging suppliers and nation-wide carrier partners to provide us with CO ₂ data for our footprint calculation and commit to reducing CO ₂ emissions by 2020.	2020
	Zalando has taken sustainable packaging to the next level	We want 100% of our packaging to be sustainably sourced.*	2020

*) Packaging procured by Zalando. For packaging not procured by us, we work with our partners to achieve the 100% target over time.

Commitment to Climate Protection

Zalando has grown successfully in the past few years and has set itself the ambitious target of doubling its business by 2020 compared to 2017. This growth has been accompanied by a larger ecological footprint, including increasing carbon emissions. As a first step towards separating our economic growth from our environmental impact, we developed Zalando's first climate protection strategy in 2017, which will be rolled out in 2018. Teams from all relevant business units were involved, contributing their ideas on how to reduce CO₂ emissions in the future. Our aim is to activate the full climate protection potential across our value chain. This includes two targets: 1) Reduce CO₂ emissions per order by 10% by 2020 compared to 2017 levels, and 2) Require and enable 100% of our packaging suppliers and nation-wide carrier partners to provide us with CO₂ data for our footprint calculation and commit to reducing CO₂ emissions by 2020.

Measuring CO₂ Emissions Every Year

To define the strategic orientation of our climate related activities, we need transparency on the environmental impact of our business operations. That is why we regularly measure our corporate carbon footprint. We continue to do this following the guidelines of the internationally recognized Greenhouse Gas Protocol and work with ClimatePartner, an international consultancy specializing in CO₂ accounting and climate protection strategies.

We track and report our Scope 1 and Scope 2 emissions for all relevant administrative and logistics locations.⁵ The Scope 3 emissions that we track include those sources that we have identified as carbon hotspots in our upstream and downstream value chain.⁶ To collect meaningful data on these sources, we engage our partners along the supply chain. Emissions from waste generated in our operations and by the purchase of office materials accounted for less than 2% of our CO₂ footprint in the calculations for 2015 and 2016 and are thus not regarded as significant sources. Therefore, they will no longer be taken into account in our calculations from 2017 onward.

GRI 103-1/-2/-3 MA
Emissions



Further Information
Corporate Strategy p. 80

GRI 305-1
GRI 305-2
GRI 305-3

- 5) Offices and offline stores with more than 40 employees, and our fulfillment centers in Brieselang, Erfurt, Lahr, Mönchengladbach, and Szczecin (Gryfino).
- 6) Outbound logistics incl. returns from Fashion Store, zLabels, Lounge, Zalor; production of packaging materials used for delivering customer orders; inbound logistics (inbound transportation of zLabels products and packaging materials; storage in delivery warehouses); employee commuting based on commuting scenarios; business travel.

CO₂ Emissions

→ 02

IN METRIC TONS	2017	2016**
Scope 1	4,935	3,868
Scope 2*	21,290	18,353
Scope 3	183,425	150,392
Total	209,650	172,613***

*) The Scope 2 emissions displayed in table 02 are market-based values, which reflect the intensity of the electricity Zalando actually purchases. The location-based value for 2017 is 33,276 metric tons of CO₂.

**) The 2016 values are not part of the non-financial report.

***) Location-based emissions in 2016 were 177,626 metric tons CO₂. This value is 6,692 metric tons CO₂ lower than the one reported in the annual report 2016. The difference is mainly due to a methodological revision in the calculation of emissions from packaging and outbound logistics.

Our corporate carbon footprint in 2017 totaled 209,650 metric tons of CO₂⁷ compared with 172,613 metric tons of CO₂ in 2016. This increase can be attributed primarily to Zalando's growth. At the order level, CO₂ emissions amounted to roughly 2.54 kg.

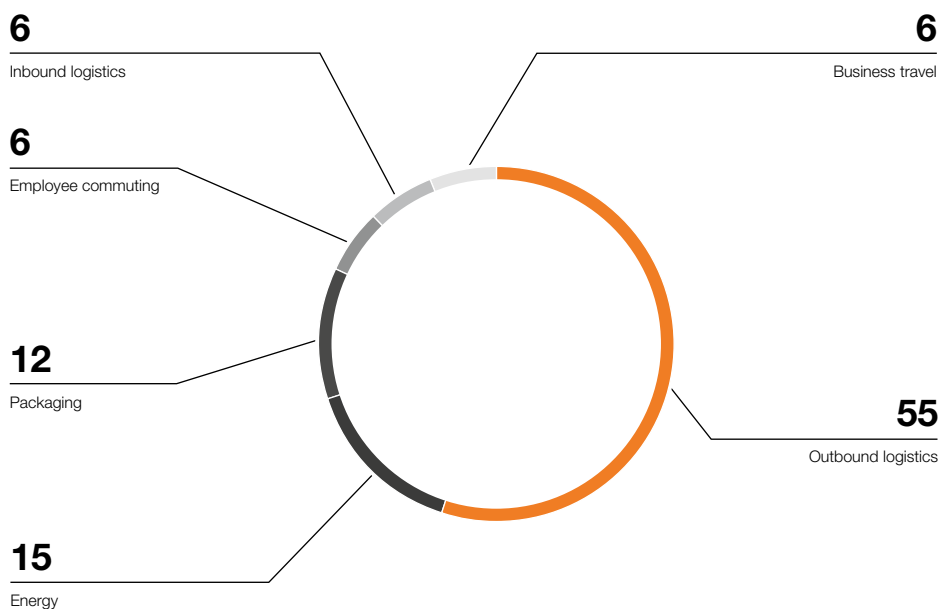
GRI 305-4

Main triggers for CO₂ emissions in the reporting year were the transportation of parcels from our fulfillment centers, including returns (55%), the energy consumed in our offices and fulfillment centers (15%), and the production of packaging materials for the products we sell (12%).

CO₂ Emissions by Source (2017)

→ 10

IN %



7) Greenhouse gas 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 metric tons of CO₂.

Sustainable Initiatives in the Logistics Network

Every day, our fulfillment centers receive products from almost 2,000 brands – products that originate from many different parts of the world. These products are sent to our more than 23m active customers in 15 European countries. In the light of these dimensions, we see efficiency, technical innovation, and raising the awareness of our service providers as the major levers for developing sustainable logistics and reducing our ecological footprint.

We rolled out a pilot project in 2017 aimed at optimizing our procurement logistics using a time slot management system. This solution enables our transport service providers to consolidate their deliveries, which improves truck loading and reduces the number of delivery trips. After the pilot, a further roll-out is planned for 2018. In addition to this, we developed a new feature in our logistics tech landscape that allows us to consolidate orders from a customer that are placed within a defined time frame into a single shipment. We thus reduce not only the environmental impact, but also the delivery costs.

The last mile of local delivery is often reported as the largest contributor to fossil fuel consumption and CO₂ emissions.⁸ Our Logistics Network Team regularly launches pilot projects that contribute both to customer satisfaction and to reducing environmental impact. In 2017, Zalando tested Tripl, a Danish electric vehicle that emits zero CO₂ and has a very low noise emission during operation, which is particularly relevant in cities. Moreover, we started piloting deliveries in a preferred 60-minute time frame, chosen by the customer in advance, in some parts of Berlin. Through this pilot, we were able to add a new partner (Hoard), which makes deliveries exclusively by bicycle, to our local delivery network in Berlin.

In order to activate the full climate protection potential across our value chain, we must engage with our service providers. We have therefore started to collect information on CO₂ emissions from all our transport partners as well as from smaller, localized fulfillment centers operated by partners. This way, we not only improve the data quality on our CO₂ emissions, but also gain a helpful foundation for future collaborations relating to environmental protection.

Innovative Mobility Concepts

In a growing company with a growing workforce, business travel and commuting emissions become more and more significant. These two sources account for 12% of our total CO₂ emissions.

Our travel policy puts phone or video conferencing first to reduce unnecessary travel. For distances shorter than 400 km, we strongly recommend that 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, a mobility concept was developed in 2017, which will be rolled out in 2018. Sustainability, both economic and ecological, is one of the main criteria in selecting our future mobility business partners.

GRI 102-2
GRI 103-1/-2/-3 MA
Emissions



zln.do/en-logistics-network



zln.do/en-post-order-experience

GRI 305-3

8) https://www.researchgate.net/publication/266977016_Carbon_emissions_comparison_of_last_mile_delivery_versus_customer_pickup

As the emissions from commuting (6%) can be traced back primarily to our fulfillment centers, our commitment is not limited to our Berlin locations. At our fulfillment center in Erfurt, for example, we have entered into a partnership with JobRad to make it easy for our employees to rent a bicycle locally. What's more – and also based on our wishes and the input received from the works council – a cycle path has been created from Erfurt to the Zalando fulfillment center. Additionally, our employees there can repair their bikes free of charge at professionally equipped maintenance pillars located near the bicycle shelters.

To make it easier for employees to get to our location in Lahr, we have initiated two bus routes that are now operated by local transportation companies.

Energy Management Promotes Climate Protection

The growth of our company also means that we require more floor space. As a result, our energy consumption has increased by 47.2% from 2016. We see increases in efficiency and investments in renewable energy as critical levers for conserving resources and protecting the environment.

GRI 103-1/-2/-3 MA Energy

In 2017, we expanded the use of smart meters to our main administration building. We now have real-time data available on our energy consumption and the opportunity to manage this more efficiently in the future. Furthermore, the last quarter of 2017 saw us commencing the introduction of an energy management system for our office buildings, starting with the main administration building. We intend to get an ISO 50001 certification for it by the end of 2018. A decision will then be made on expanding the certification to other offices.

In order to operate our fulfillment centers in a more energy-efficient way, we continue to pursue the goal of introducing an integrated energy management system at our locations in Germany. Technical difficulties have led to a delay in the introduction of this system, which is now planned for 2018.

In addition to increasing our energy efficiency, we are focusing on the use of renewable energies as part of our climate protection strategy. Therefore, starting in January 2018, we switched to 100% renewable electricity in our German operations. Moreover, we started using climate-neutral gas this year to heat the fulfillment centers that we operate in Germany.

Our recently constructed fulfillment center in Lahr will be partially fitted with solar panels. This is expected to cover 13% of the electricity requirement there in 2018. The CO₂ savings anticipated from this measure amount to 650 metric tons per year.

Energy Consumption

→ 03

GRI 302-1

IN MWH	2017	2016
Electricity (total)	50,840	37,159
Electricity from renewable sources	22,840	12,634
District heating	11,864	2,761
Natural gas	20,297	16,351
Car fleet	1,402	1,072
Total	84,402	57,342

Resource Efficiency in Packaging and Waste

With our business volume increasing, we also expect an increase in the amount of packaging material we use. In order to decouple our economic growth from our ecological footprint, we want to raise the sustainability of our packaging materials. For example, we aim to source 100% of our packaging material from sustainable sources by 2020⁹ and to ensure it can be recycled after use. 25,149 metric tons of packaging materials were used at Zalando for customer deliveries in 2017. 93% of these came from renewable sources.

GRI 103-1/-2/-3 MA Materials
GRI 301-1
GRI 301-2

Our approach to the use of packaging materials is based both on customer-centricity and on environmental factors. To be able to offer our customers the best unpacking and return experience in the industry is enormously important for our business model. So our mailing envelopes and almost all of our boxes have an integrated return strip that makes them easy to reseal. We have noticed that some of our customers continue to use standard adhesive tape when sending back mailing envelopes and boxes, which leads to additional waste and more resources being consumed. In order to make the return process easy for our customers, but also to encourage them to refrain from using additional adhesive tape, we began marking the return strip with an additional label in 2017.

Given the limited natural resources worldwide, we use packaging material as sparingly as possible. We therefore work closely with our partners to continually reduce the amount of materials used for each box. For example, the thickness of the material of our smallest boxes has been reduced, which enabled us to save approximately 3,000 metric tons of paper in 2017.

GRI 103-1/-2/-3 MA Materials

Our shipping envelopes also offer ecological benefits. They allow our employees to adjust the size when sealing. Air holes ensure that excess air can escape, meaning the envelopes take up less space during transport. The share of total volume sent in shipping envelopes has increased from an average of 17% in 2016 to 21% in 2017.

9) Packaging procured by Zalando. For packaging not procured by us, we work with our partners to achieve the 100% target over time.

Handling Waste Properly

Paper and municipal waste are the most frequent types of waste from our offices; in contrast, most waste in our fulfillment centers, outlets, and photo studios is caused by the packaging used to ship and return the products that we sell. 50% of the materials used as packaging in all product categories was sent back to us and recycled.

GRI 103-1/-2/-3 MA Materials
GRI 103-1/-2/-3 MA Effluents
and Waste
GRI 301-3

Zalando sees the recycling of packaging in our fulfillment centers as an important ecological duty, so all shipping cartons and foil bags that can no longer be used are collected, sorted, and recycled. We also involve our customers in these activities and furnish our parcels with information that the packaging is 100% recyclable.

Total Weight of Waste by Type and Disposal Method

→ 04

GRI 306-2

IN METRIC TONS*	2017	2016**
Non-hazardous waste	17,693	16,312
Waste disposal method		
Recycling	15,821	14,979
Reuse	58	329
Recovery, including energy recovery	864	–
Waste incineration	950	1,005
Hazardous waste	1	55
Total	17,694	16,367


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

**) This value is 138 metric tons lower than the one reported in the annual report 2016. This is mainly due to an improvement in the calculation methodology.

1.2.5 do.CONNECT

do.CONNECT

→ 11

Impact vision	Aspired outcome	Targets	Timing
Reimagine how corporations contribute to societal challenges 	Zalando has leveraged its unique mix of resources to scale existing solutions for social impact	Through cross-sector alliances, we offer support and visibility for 100+ solutions that contribute to diverse communities or value chain transparency.	2019
		Contribute substantially to scale at least five solutions with the potential to increase value chain transparency in the fashion industry.	2020
	Zalando employees have become changemakers in their communities	20% of Zalandos engage in Corporate Citizenship activities.	2020
		Leveraging the professional expertise of our employees by increasing the share of pro bono shifts in our volunteering mix.	2020
		Empower 100+ Zalandos to bring powerful citizenship activities to their neighborhoods.	2020
	We pioneered ways to increase impact orientation in corporate citizenship	Provide access for NGO's to capacity building on collaborating with corporates.	2018
		Test different ways to measure Zalandos societal impact.	2019

The challenges that our society is facing are large and complex, and companies can and have to reimagine how they want to contribute solving them. As a good corporate citizen, we want to get involved in this process in the same professional way as we do in our daily business. Together with experts from all parts of society, we get engaged by contributing our skills, networks, and resources. This becomes particularly meaningful in the areas in which we are well versed. In the past two years we started building the networks and infrastructure that are necessary to strategically invest an average of 1% of our EBT in our social impact from 2018 onwards focusing on two strategic areas. 1.) We will continue engaging in the communities around us in order to be a good neighbor. 2.) At the same time we want to use our expertise in tech and fashion to start taking a systemic role in our industry and invest strategically in solutions that increase transparency and sustainability in our industry. Building an accelerator for this purpose will be a major focus topic in our community engagement in 2018.

GRI 413-1



zln.do/en-neighborhood

Strengthening Diverse and Inclusive Communities

Many countries have already identified powerful solutions for refugee integration, some of them even have decades of experience with them. In 2016, we invited successful social entrepreneurs from around the world to our Hello Festival in Berlin and empowered ten local organizations to transfer their valuable know-how on refugee integration to Germany. The "Hello Accelerator" was designed as a one-year support program to those organizations, providing them with trainings, mentoring and on top of EUR 285,000 project funding to pilot knowledge transfer and replication. At the core were a cross-sectoral approach and the idea of scaling solutions with a proven track record instead of reinventing the wheel – this social Zalando principle was awarded with the German CSR award 2017 in the category Successful Measures for Refugee Integration. We are delighted about the recognition of our social engagement and take it as an additional motivation to continue our path because the challenge of long-term integration has by no means been solved yet.

GRI 103-1/-2/-3 MA
Local Communities

Just like our employees from more than 100 different countries, refugees are now also contributing to the diversity and dynamic environment of our local communities. After initially finding shelter in emergency and large-scale accommodation, many of them have now settled in the neighborhoods. That is why we will not scale back our commitment to integration, but focus on strengthening diverse and inclusive communities from now on. In a first step, we supported the first German Neighborhood Award of the nebenan.de foundation in 2017. More than 1,300 applications provided impressive testimony to the local engagement.

None of this would be possible without the engagement of our employees. They get actively involved around our locations and can have two days volunteering time off for this each year. In 2017, 954 Zalando provided support for 60 initiatives in 816 shifts. We are collaborating with the social business Vostel to ensure that we create a win-win situation: a great experience for our employees and an actual impact for the participating project. For this Vostel, collects feedback and data on the impact of our volunteering program.

Feedback on Our Volunteering Program

→ 12



In addition to measuring the impact of our activities, it is particularly important to us to increase the number of employees that volunteer. We want 20% of Zalando to be engaged in corporate citizenship activities by 2020 and increase the share of pro bono shifts compared to 2017.

Corporate volunteering can be a great way to connect people and causes that would not necessarily meet otherwise. Beyond the personal encounters, social initiatives value the time and professional expertise Zalando employees offer. That is why a growing number of Zalando contribute their professional skills to a good cause free of charge – pro bono. In 2017 we organized a Hack Night in which our employees worked a whole night on challenges of six social initiatives. For example, a website was optimized for search engines and a campaign concept was developed. Furthermore, Zalando provided advice to the Hello Accelerator participants on subjects such as communication strategies, management skills, and team building. Zalando has additionally held workshops for refugees on programming and job application skills. Finally, employees passed on their knowledge of social media communication and customer-friendly design of sales rooms for a conference of the clothing stores of the Red Cross.



zln.do/en-hack-night

Increasing Transparency in the Supply Chain

Over the past years we learned a great deal from our engagement in integration and a variety of different topics in the communities we are part of. Whereas we want to continue to contribute to those local causes as all neighbors should, we want to leverage our professional experience and networks for societal challenges too. The biggest impact we can have is where our core competences meet: fashion and technology. We believe that we need to use new technologies to increase transparency in our industry dramatically, and we are determined to find our role in accelerating this process for the good of all.

In the course of 2017, we created a watch list of promising solutions that use technology to increase transparency in supply chains and started having conversations with experts and social innovators from the field. We got inspired by their approaches and listened to their needs to identify potential ways we can contribute to their impact story. Although we are only at the beginning of a new learning journey, we are already convinced of the potential of the solutions and have therefore already begun to develop the infrastructure for our own support program, which we will launch in 2018. The program will systematically identify social innovators and their solutions and support them in scaling their impact.

As a first step, we became a partner of the Plug and Play – Fashion for Good accelerator that concentrates on finding, investing in, and bringing much-needed sustainability innovations to the market. In only one year, Fashion For Good has already built a pipeline of more than 400 startups that innovate in all parts of the supply chain. We are proud to join this industry initiative, teaming up with the C&A Foundation, Kering, and Galeries Lafayette. The challenges we face as an industry are too big to be solved by single stakeholders, so we hope to see even more partners joining us in the future.

In 2018, we will grow our investment of time, funding and expertise and team up with our business partners and leading stakeholders to help the most promising solutions to grow their impact significantly.