

# Modern Slavery Statement 2019

## OUR COMMITMENT

**Human trafficking and forced labor (modern slavery) are human rights violations. Zalando SE and all its subsidiaries (hereinafter commonly referred to as Zalando) are committed to respecting internationally recognized human rights in line with the International Bill of Human Rights and the Conventions of the International Labor Organization (ILO) No. 1, 29, 87, 95, 98, 105, 111, 131, 138 and 155.**

**We acknowledge our responsibility to have the appropriate codes, policies and processes in place to address actual and potential human rights impacts, in line with the United Nations Guiding Principles on Business and Human Rights.**

**With this aim, we will conduct regular assessments to identify potential impacts, act upon the findings, track responses, and communicate how impacts are addressed.**

**We will take seriously any allegations that human rights are not respected within our own operations or our supply chain, and will take the adequate steps to address adverse impacts related to our business.**

## OUR BUSINESS

Zalando is Europe's leading online fashion and lifestyle platform. Based in Berlin, we offer our customers a one-stop convenient shopping experience with an extensive selection of lifestyle articles, including shoes, apparel, accessories, and beauty products. Beyond our central offices in Berlin, we have international offices e.g. in Dublin, Helsinki, Lisbon and Hong Kong.

We serve customers in 17 European markets: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Spain, Sweden, Switzerland and the United Kingdom.

Zalando's assortment is comprised of almost 2,000 international brands, including 11 private label brands managed by Zalando's subsidiary zLabels. Next to our Fashion Store, the Zalando group comprises Zalando Lounge and our Zalando Outlets. Zalando Lounge offers registered members special discounts for fashion and lifestyle products. Our outlet stores in Berlin, Frankfurt, Cologne, Leipzig and Hamburg which were opened between 2012 and 2018 serve as additional sales channels for excess inventory.

Beyond the products that we sell on our online fashion platform, our supply chain is also composed by the procurement of non-stock items and services, such as packaging and logistic services. Customer care and fulfillment services are provided by both Zalando teams and external service providers. For our transportation to and from customers we work with logistics service providers.

## Facts and Figures 2018



## OUR MEASURES TO PREVENT HUMAN RIGHTS VIOLATIONS

### Governance

We acknowledge that our industry is an at risk sector for human rights violations and therefore take steps to prevent, detect and respond to modern slavery. Four teams collaborate closely in the Human Rights and Modern Slavery Working Group, composed by representatives from Compliance & Business Ethics, Corporate Responsibility (CR), zLabels Ethical Trade and International Standards & Relations teams:

The Compliance & Business Ethics team manages Zalando's group-wide Compliance Management System to foster compliance with applicable laws, internal regulation and ethical standards along our businesses. The Compliance & Business Ethics team also manages investigations following tip-offs via our whistleblowing tool.

The CR team defines the sustainability strategy for the Zalando group and is responsible for Zalando's overall approach to human rights risk assessment and due diligence strategy. The team regularly updates Zalando's General Counsel on steps taken to prevent and detect human rights and receives guidance on priorities and actions.

The zLabels Ethical Trade team is responsible for ensuring that zLabels sourcing partners comply with our Code of Conduct and treat the workers in the supply chain ethically and fairly. The team presents an update every quarter to a member of our Management Board and the General Counsel to keep them abreast of the programs and processes being implemented within our supply chain.

The International Standards & Relations team within P&O is responsible for the organisation of the social compliance audits in logistics. Through social standards we want to ensure fair and decent working conditions at our fulfilment centers and those of our business partners in our logistics supply chain.

### Policies

Our expectations towards all our employees and business partners are set forth in our policies which highlight, among others, the imperative respect for human rights in all our business activities. The Compliance and CR teams update these policies on a regular basis.

Code of Ethics	Code of Conduct	Ethical Sourcing Standards
<p>Zalando's Code of Ethics sets out Zalando's specific expectations towards every employee regarding social and ethical behavior. The Code of Ethics has been communicated to our employees in various languages and is publicly available on our website.</p>	<p>Our commitment to avoid human trafficking and forced labor in our supply chain is underpinned in our Code of Conduct for Business Partners. It was established in 2013 and last reviewed in 2017. It is issued by Zalando SE's Management Board and applies group-wide to our business partners.</p> <p>The Code of Conduct expressly prohibits the use of forced, bonded, indentured and prison labor, as well as the slavery or trafficking of persons in any form. Supply chain job seekers shall not be compelled to work through force, deception, intimidation, or coercion. All work shall be voluntary, and workers shall be free to terminate their employment upon reasonable notice without penalty. Additionally, holding, confiscating or destroying original worker identification documents, passports, travel papers or other personal documents is prohibited.</p>	<p>Complementary to our Code of Conduct, our Ethical Sourcing Standards set additional standards that all third-party brands, as well as our private labels, must comply with. It includes our commitment to the non-use of materials containing cotton sourced from Uzbekistan or Turkmenistan due to ongoing concerns regarding the use of government backed, state-orchestrated systems of forced labor in cotton cultivation in these countries.</p>

### Assessing Risks

Building on our first modern slavery risk analysis, which the CR team performed together with the Risk Team in 2017, we developed a methodology to assess potential human rights impacts across Zalando in 2018. As a first step, we started by identifying potential human rights impacts related to our business and their relevance for each of our business units in line with the United Nations Guiding Principles on Business and Human Rights. Building on our first step, the CR team collaborated closely with the Risk Team to further integrate human rights into our enterprise risk management. In the collaboration we developed a qualitative classification of potential human rights impacts to rights-holders. We conducted assessments with prioritized business units in order to test this classification and to identify existing and necessary measures to adequately address potential human rights impacts.

As a result of this process, we adapted and finalized the classification and prioritized our risk areas. We continue to consider two areas to be our priority regarding human rights impacts, and especially modern slavery: the supply chain of our private labels and our logistics network. The reason for this prioritization is that we see a high inherent susceptibility and consider our influence to be at least indirect for those areas.

### Managing Risks In Our Private Labels Supply Chain

11 of the around 2,000 brands available in our shop belong to our subsidiary zLabels. At zLabels, we source products from 23 different countries, and currently work with 240 sourcing partners and 425 factories, a 12% decrease in comparison to 2017. Our five main sourcing countries in 2018 were China (45%), Turkey (11 %), India (10 %), Bangladesh (8 %) und Spain (4 %). Due to the size and variety of our assortment, we do not own any of the factories in our supply chain, but are focusing on strengthening our relationships with key sourcing partners.

A crucial part of our work at zLabels is checking that our sourcing partners comply with our Zalando group-wide Code of Conduct and treat workers with dignity.

As part of our onboarding process, all new sourcing partners must sign the Code of Conduct and the corresponding factory must meet all ethical requirements before orders can be placed. At zLabels we have an audit program in place to monitor that work is voluntary and workers are free to terminate their employment without penalty. If critical findings are observed, we do not begin the relationship without evidence that they have been corrected. In the past year, we rejected the onboarding of 51 factories due to non-compliance.

For existing factories, we require new audits every twelve months to monitor and reassess factory conditions. In 2018, we evaluated 446 audit reports for new and existing factories. If a critical instance of non-compliance is found at an existing factory, the factory has seven months to remediate the critical instance along with a new audit. We require evidence of improvement to continue our relationship with the sourcing partner.

The Ethical Trade team internally evaluates all audits received against their internal non-compliance matrix. The matrix is based on the standards set forth in our Code of Conduct as well as local legal requirements. Based on the findings of the audit, a Corrective Action Plan (CAP) is developed, and suppliers and their factories are asked to demonstrate improvement in identified areas.

In 2018, we updated our country requirements for the audit program. We built on our existing country risk categorization and developed new policies, including subcontracting and contract worker policies, and updated our migrant workers and homeworkers policies.

Our Ethical Trade Team visited 64 factories in 2018, working closely with our partners to develop customized improvement plans to address specific social challenges.

zLabels also has a Factory Improvement Program (FIP) which seeks to go beyond auditing to support our sourcing partners and factories on the ground, through capacity building and awareness-raising. Our FIP has continued to grow this year, with 25% of our business volume sourced from participating FIP factories as of end 2018. We have nine programs and initiatives across eight countries, each program tailored to each specific factory.

We continue our work in the Ethical Trading Initiative (ETI) working groups in Mauritius and Turkey that focus on protecting the rights of vulnerable workers across the supply chain.

zLabels also works as collaboratively as possible with other brands, organizations, trade unions, NGOs, sourcing partners and government stakeholders to drive improvements through the industry together.

### **Managing Risks In Our Logistics Network**

The current Fashion Store logistics network with five centrally located fulfillment centers (four in Germany, one in Poland) allows Zalando to efficiently serve its customers throughout Europe. The network is supported by smaller fulfillment centers in Northern Italy, France and Sweden which focus on local customer needs. Our four German fulfillment centers are operated by Zalando, whilst international ones are operated by third-party logistics service providers. The fulfillment centers also handle return processes. Transportation services, including deliveries, are provided by business partners. Our private label brands distribution centre is located in Peine, Germany, and operated by a third-party provider. Zalando Lounge has two fulfillment centers in Großbeeren and Ludwigsfelde, which are partly operated by Zalando and partly by a third-party service provider.

Ensuring fair and decent working conditions in our fulfillment centers is a priority for Zalando. We have set out our expectations in clear social standards which are valid for our own fulfillment centers and those of our partners, and we have implemented an auditing system to assess compliance. Our social standards

are based on our Code of Conduct and cover key topics like remuneration, working hours, freedom of association and prevention of modern slavery.

We pay special attention to our temporary staff. Our social standards apply equally to them and clearly state that temporary workers shall receive the same hourly wage as our permanent employees.

At all our fulfillment centers, compliance with our standards is reviewed twice a year through an audit by an external auditor. In 2018 compliance with our social standards was reviewed throughout Europe, in 23 locations of our own fulfillment centers and those of our partners, including those of Lounge and zLabels. Based on the audit results, we agree on measures to address the findings at the sites. Zalando monitors the implementation of these measures through regular meetings.

Our employees help us to further develop the work experience in all fulfillment centers. Various bodies of employee participation (i.e. works councils, round tables) are actively engaged in improving the environment at their respective sites. We promote various opportunities for dialogue between employees and management by asking our employees, e.g. in engagement surveys or personal interviews for feedback.

We believe that we can nonetheless improve our practices. In 2018, we changed the auditing company to work with local auditors at each site who are familiar with country-specific working conditions. In 2019, we will review our social audit process to further increase robustness and accuracy.

### **Training**

Training on business integrity, including our Code of Ethics and our Code of Conduct, is mandatory for each Zalando employee with a Zalando e-mail address. The trainings reinforce awareness of the relevant regulatory framework and internal rules and regulations and provide information regarding the established processes within the Compliance Management System. Attendance of trainings and completion of eLearnings is monitored by the Compliance and Business Ethics team.

In order to further educate our staff, we developed an Ethical Trade eLearning which is mandatory for all zLabels' employees. In order to support the factories of our suppliers in meeting our standards, we have also launched a tailored training video that provides information on our standards and policies in an accessible way. The video was sent to all suppliers.

In 2018, zLabels Vendor Summits in India, China and Spain were attended by 183 of our sourcing partners. Through a series of workshops and panel discussions, we engaged our business partners to collaborate and build stronger partnerships that meet both of our goals.

### **Grievance Mechanisms**

Zalando has a compliance management system to prevent non-compliance with its standards and to allow appropriate response. We offer different channels for both employees and externals to report possible violations. We have put in place a whistleblowing tool managed and hosted by an external service provider which is available in several languages and provides the possibility of remaining anonymous. In addition, our Compliance & Business Ethics Team can be directly contacted through various channels (email, chat, in person, telephone).

Employees and temporary staff at Zalando's fulfillment center and customer care offices can, in addition, address any concerns to social workers.

### **OUR NEXT STEPS**

Modern slavery can take place in different forms and is often challenging to identify. We are aware of the complexity of monitoring this issue throughout our value chain. We acknowledge that we are still at the beginning of a journey and we commit to improve our business practices every day.

Therefore, we are planning to take the following next steps during 2019:

<b>1. Strengthen overarching approach to respecting human rights throughout Zalando group</b>	<b>2. Strengthen measures to prevent risk of modern slavery in supply chain of our private labels</b>	<b>3. Strengthen measures to prevent risk of modern slavery in logistics supply chain</b>
<p>Further develop our human rights risk assessment through in-depth analysis of key business units and close collaboration with Risk team</p> <p>Further strengthen our business partner checks process</p>	<p>Disclose list of zLabels strategic Tier 1 suppliers</p> <p>Sustain 25% of our business volume being sourced from factories participating in our Factory Improvement Program</p>	<p>Further increase transparency in our logistics supply chain</p> <p>Review our social audit process to further increase robustness and accuracy</p>

This statement has been published in accordance with the UK Modern Slavery Act and summarizes our steps taken against human rights violations including but not limited to modern slavery during the financial year ending 31 December 2018. It was prepared by the Human Rights and Modern Slavery Working Group. The statement has been approved and signed by



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